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Cost classification in UNDP*

Summary

In response to several recent decisions of the Executive Board, the present report contains an initial conceptual framework and a broad 'road map' to initiate discussions towards a more transparent, results-oriented and coherent cost classification system in UNDP. A number of subsequent reviews and analyses will be undertaken, and further elaborations provided in support of the broad concepts presented here. In parallel, UNDP plans to hold a series of informal meetings with Board members over the months leading up to the second regular session 2009, at which the biennial support budget, 2010-2011, and the mid-term review of the programming arrangements, 2008-2011, will be formally considered by the Board.

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Contents

Chapter		*Page*
I.	Background	3
II.	Cost classification	3
	A. Conceptual framework	3
	B. The 'road map'	4
Annex		11
	Harmonized cost definitions	11

I. Background

1. This report is presented in response to Executive Board decision 2007/33 (paragraph 7) on proposals on programming arrangements for 2008-2011, and decision 2008/1 (paragraph 8) on the UNDP biennial support budget, 2008-2009. The report provides an initial conceptual framework and broad 'road map' for realigning cost classification of activities within the overall UNDP resource plan[1] as funded from the programming arrangements and the biennial support budget. It also serves as a prerequisite for subsequent discussions on the base structure of UNDP.

2. This report is also presented for the initial consideration of the Executive Board within the context of the commencement of preparations for discussions on the biennial support budget, 2010-2011, and the mid-term review of the programming arrangements, 2008-2011. Both of these items are scheduled for formal consideration by the Executive Board at its second regular session in September 2009.

II. Cost classification

A. Conceptual framework

3. The responsibilities of UNDP as a leading development organization of the United Nations system have evolved over the past decade to respond more effectively to the demands of programme countries, resolutions of the General Assembly and decisions of the Executive Board. Accordingly, UNDP fulfils two mutually reinforcing roles: (a) it supports the coordination, efficiency and effectiveness of the United Nations system as a whole at the country level; and (b) it provides policy and technical support by working on and advocating for the multi-sectoral challenges of poverty reduction, democratic governance, crisis prevention and recovery, and environment and sustainable development.

4. In view of the above, UNDP has been directed to strengthen its role in supporting the coordination, efficiency and effectiveness of the United Nations system as a whole at the country level. In conjunction, it continues to fund development projects, while responding to an ever-increasing demand for advocacy, policy services and technical support from programme countries to meet the multi-sectoral challenges identified above.

5. The activities of UNDP are articulated in its business model, which supports the dynamic responsibilities delegated to UNDP by the General Assembly, reflected most recently in General Assembly resolution 62/208. The business model provides the framework for UNDP support to programme countries towards the fulfillment of their national development strategies. It encompasses support to the coordination, advocacy and development services of the United Nations development system, and to the underlying management functions that facilitate their delivery.

6. The strategic plan, 2008-2011, sets the overall direction for UNDP operations in support of programme countries as approved by the Executive Board. The strategic plan rests upon four pillars, which are derived from the business model and in principle drive the mobilization and allocation of regular and other resources. They support programme activities; ensure effective programme implementation; facilitate United Nations development coordination; and support management functions.

[1] Cross reference to DP/2008/3, table 1.

7. The UNDP resource plan is an integrated financial resources framework covering development and management activities – including UNDP development coordination activities – funded from regular and other resources. Two distinct regular resources funding frameworks are considered separately by the Executive Board: the programming arrangements framework, 2008-2011; and the biennial support budget, 2008-2009.

8. In principle, the programming arrangements framework should support programme activities, ensure effective programme implementation and facilitate United Nations development coordination, while the biennial support budget should support management functions. In practice, the programming arrangements framework does contain all programme activities. However, it does not sufficiently differentiate programme activities from programme implementation activities, nor does it contain all the programme implementation and United Nations development coordination activities. While the biennial support budget now incorporates results-based budgeting, it remains separate and distinct from the programming arrangements framework, and uses cost classifications more reflective of a funding organization. Thus the two funding frameworks, and, more importantly, the cost classifications within them, are not fully responsive and supportive of the evolving responsibilities of UNDP, especially when viewed in the context of the demand-driven and results-oriented environment in which UNDP operates.

9. As a result, an artificial divide has been created, and continues to exist, between activities funded under the programming arrangements framework and those funded under the biennial support budget. For example, in response to a programme country request to 'receive policy advice', UNDP hires a consultant under the programming arrangements to provide advice on an environmental issue. The associated expenditure would be recorded as a development expense. In contrast, if the same advice for the same activity were provided by a specialized UNDP national officer in the country office, it would be charged to the biennial support budget as a management expense.

10. In addressing this artificial divide, UNDP needs to further rationalize the responsibilities, functions and activities reflected in its funding frameworks and cost classification system. In so doing, it needs to align them with the business model and the multi sectoral challenges and targeted results for 2008-2011 approved for implementation by the Executive Board. Accordingly, a more transparent and responsive cost classification system, coupled with more flexible funding mechanisms, is required. This is particularly important for strengthening results-based management, ensuring coherent attribution of costs and enhancing resources mobilization.

11. A joint consultancy was commissioned by UNDP, UNICEF and UNFPA in mid-2008 to assess the degree of harmonization in cost classification among the three organizations. The harmonized cost definitions agreed to by UNDP, UNICEF and UNFPA were reviewed and found still applicable. Those definitions, and a more detailed discussion of this subject, can be found in the annex to the present report, 'Harmonized cost definitions'.

B. The 'road map'

12. Three guiding principles support the underlying need for a transparent, strategic and fully aligned cost classification system in UNDP:

(a) transparent identification and attribution of costs;

(b) rationalization and simplification of cost classification groupings in line with more realistic and responsive funding frameworks; and

(c) alignment of cost classifications and funding frameworks with the business model and the strategic plan;

13. Specifically, with the adoption of a more strategic, coherent and harmonized business approach across the United Nations system, it is critical that underlying costs be clearly defined and transparently linked to organizational objectives. This should enhance results-based reporting, balance service demand with supply requirements, improve accountability, facilitate decision-making, and foster comparability.

14. The funding frameworks contain the resource facilities (programme lines and results-based budgeting functions) which in principle facilitate the delivery of planned results, and in which costs are classified. Therefore it is imperative to have rational, simple cost classification groupings in place to ensure that funding frameworks are realistic and responsive. In that regard, the two broad cost groupings that now exist – development and management – remain relevant. However, the classification of costs between and within the two funding frameworks requires further analysis and review to ensure that the demands for enhanced cost attribution and increased transparency are met. A third broad cost classification category is considered, to capture special-purpose activities (see paragraphs 19- 22, below).

15. The alignment of cost classifications and funding frameworks with the current focus of the business model and direction of the strategic plan is equally important. Enhanced alignment should further strengthen the ability to allocate resources in a clearer, more demand-driven manner, in line with planned organizational priorities and the functions and activities required to achieve them. This should permit an optimal allocation of resources to development activities, while ensuring that the requisite amount of sustainable resources is allocated to management activities.

16. UNDP is considering a conceptual framework for classifying costs along the three broad groupings discussed above – *development, management, and special purpose.* Consideration will also be given to the formulation of a more integrated funding framework into which those costs could be classified.

17. Development costs could lend themselves to further classification within three major subcategories, based on groupings of similar activities and functions. Those are: *programmes; programme effectiveness activities; and United Nations development coordination activities*. They are briefly described below.

(a) *programmes* – representing the resource facilities and costs classified therein available to fund country, regional and global programmes and projects in the four UNDP areas of focus. The resource facilities (programme lines) contained in the programming arrangements framework fund development programmes and projects at the country (TRAC[2]-1/2 and TRAC-3), global (global programme) and regional (regional programme) levels.

(b) *programme effectiveness activities* – representing UNDP inputs of a policy advisory, normative or technical nature which are needed to achieve the objectives of programmes or projects in the four UNDP areas of focus. These activities are considered integral to achieving planned results. This category would include the costs of policy advisory services and normative work, as well as advocacy and technical support costs incurred during programme or project identification, formulation, management and implementation.

(c) *United Nations development coordination activities* – representing the inputs needed to support the coordination of development activities of the United Nations system. These would include representation and leadership in the United Nations system and all costs associated with the resident coordinator function; strategic coordination of United Nations country teams; formulation of United Nations development assistance frameworks and joint programmes; partnership support to and resource mobilization on behalf of the United Nations system; public information,

[2] Target for resource assignment from the core

advocacy and monitoring progress towards the Millennium Development Goals; and common and shared services.

18. *Management activities* represent the UNDP functions and activities required to ensure the delivery of programmes, programme effectiveness activities and United Nations development coordination activities. These would include: executive leadership and direction; corporate oversight and accountability; compliance with statutory obligations; and effective human and financial resources management.

19. Special-purpose activities could form a third broad cost classification category, given their cross-cutting nature and the material amounts involved. Three major subcategories could be considered: United Nations-mandated security costs; after-service health insurance costs; and capital investment costs.

20. *United Nations-mandated security costs* emanate from UNDP participation in the approved package of global measures under implementation by the United Nations Department of Safety and Security. These measures include the United Nations field security coordination programme and compliance with minimum operational security standards at the country-office and headquarters levels. After-service health insurance costs are the costs for health-care benefits accruing to eligible employees upon retirement. Significant costs, associated with the unfunded liability arising from actuarial valuations of projected after-service health insurance costs, have been identified and are accrued for annually.

21. The treatment of capital investment costs as a separate special-purpose cost could serve to further increase transparency through the separation of capital costs from operational (management) costs. This should allow for clearer lines of accountability within the organization, at the same time allowing governing bodies to recognize their accountability for ensuring the availability of resources to fund such activities. It should also enhance strategic planning through long-term prioritization of capital investment requirements, and assist in risk management by mitigating the need to meet sudden, unplanned funding demands. Separate budgeting for capital costs is aligned with IPSAS principles of accruals and depreciation, and in line with best practices.

22. UNDP is currently leading a High-level Committee on Management/Finance Board Network-sponsored working group on capital budgeting, the main objective of which is to develop a broad, strategic and inclusive conceptual framework for the introduction of harmonized capital budgeting into the United Nations system. Issues relating to financing mechanisms and the revision of financial regulations and rules have been raised. This is especially pertinent because at present the financial regulations and rules preclude the borrowing of funds and the construction of buildings, both of which are areas of potential interest to UNDP.

23. In conclusion, the business model and the strategic plan – and the resource frameworks and cost classification system which underpin them – are the key to the future relevance and sustainability of UNDP. As broadly presented herein, a more transparent cost classification system is required to attribute costs, respond to the demand-driven needs of programme countries and enhance results-based management. This approach should result in a more optimal allocation of resources to meet the myriad funding priorities of UNDP, including a longer-term view of the need for sustainability. The broad concepts set forth in the present report are intended to initiate the discussions that will bring about this result.

Annex. Harmonized cost definitions

24. The harmonized cost definitions agreed upon by UNDP, UNFPA and UNICEF are:

(a) *direct costs* – all costs that are incurred for and can be traced in full to the activities, projects and programmes of an organization in fulfillment of its mandate;

(b) *fixed indirect costs* – all costs that are incurred by the organization regardless of the scope and level of its activities, and which cannot be traced unequivocally to specific activities, projects or programmes;

(c) *variable indirect costs* – all costs that are incurred by the organization as a function and in support of its activities, projects and programmes, and which cannot be traced unequivocally to specific activities, projects or programmes.

25. Those harmonized definitions are largely aligned with the Joint Inspection Unit (JIU) definitions as reflected in JIU/REP/2002/3. The one area where additional clarity is provided relates to the treatment of direct project and programme costs. In that regard, it is significant to note that the JIU classifies costs relating to programme and project formulation, management and implementation activities, including those of an advisory nature, as direct costs. For the purposes of this report, such activities are accorded similar treatment and are referred to collectively as 'programme effectiveness costs'.

26. The application of the above definitions facilitates the classification of costs across the three organizations as: 'direct' development costs (programmes, programme effectiveness, and in the case of UNDP, United Nations development coordination); and as 'fixed indirect' or 'variable indirect' management costs.

27. In general the classification of costs between development and management are harmonized among the three organizations, with the notable exception of programme effectiveness related costs. In view of the differing organizational mandates, total harmonization of operations, including the classification of costs, is not a realistic or desirable goal. Further harmonization could nevertheless be considered in three areas:

(a) classification of costs between development and management, especially with respect to programme effectiveness related costs;

(b) classification of costs within the management functions;

(c) classification of costs within the management functions between fixed indirect costs and variable indirect costs.

28. To ensure greater harmonization, UNDP intends to continue discussions with partner organizations around definitions and descriptions. The focus will be on achieving greater consistency in the activities and related costs included under each function and ensuring consistency in the classification of costs between management and development, especially with respect to programme effectiveness functions. Similarly, discussions will continue on consistency in the classification of management costs as 'fixed indirect' or 'variable indirect' costs.

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United Nations Office for Project Services

United Nations Office for Project Services: Financial Regulations and Rules

Summary

The United Nations Office for Project Services (UNOPS) proposes that the Financial Regulations and Rules in the present document take effect on 1 February 2009. The regulations and rules attempt to codify and reinforce a number of institutional imperatives including: risk management; internal financial controls; separation of duties; and internal and external audit functions. They will enable UNOPS to operate on the basis of full cost recovery and generate sufficient net surplus to maintain its operational reserves.

The proposed Financial Regulations and Rules would permit the Executive Director, *inter alia*: to accept contributions to the UNOPS biennial administrative budget and projects; to make project payments in advance of receipt of project funds; and to redeploy funds within an approved biennial administrative budget, provided that the net revenue target established by the Executive Board remains unchanged. The regulations and rules also address the effective and efficient management of all UNOPS resources, including cash, inventories, property, plant and equipment.

Elements of a decision

The Executive Board may wish to: take note of the need to amend the UNOPS Financial Regulations and Rules to permit them to address the unique business realities faced by the organization and facilitate the implementation of the International Public Service Accounting Standards; express appreciation for the conscientious effort, as represented by the proposed Financial Regulations and Rules, to improve the ability of UNOPS to function as a self-financing entity of the United Nations system; and accept the proposed Financial Regulations and Rules, to take effect on 1 February 2009.

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Contents

Chapter		Page
I.	Background	2
II.	Rationale for change	3

Annexes

1. Proposed UNOPS Financial Regulations and Rules 4
2. Synopsis of proposed changes (available on the Executive Board web page)
3. Comparison with earlier Financial Regulations and Rules (available on the Executive Board web page)

I. Background

1. UNOPS proposes that the Financial Regulations and Rules in the present document take effect on 1 February 2009. Any matter not specifically covered by them will be governed by the appropriate provisions of the United Nations Financial Regulations and Rules.

2. The Financial Regulations and Rules set forth in the annex, below, codify and reinforce a number of institutional imperatives, including: (a) a risk management system to manage, control and mitigate financial and other risks; (b) an internal financial control mechanism to ensure effective, current examination and review of financial, management and operational activities; (c) appropriate separation of duties; (d) an internal audit function; and (e) conformity with the external audit provisions of the United Nations Financial Regulations.

3. Under the proposed Financial Regulations and Rules, the Executive Board will determine the nature and scope of UNOPS activities. As a self-financing entity, UNOPS shall operate on the basis of full cost recovery and shall set its management fees accordingly, generating sufficient net surplus to maintain operational reserves at the level established by the Executive Board.

4. Significant changes to the current regulations and rules would permit the Executive Director: to accept contributions – whether financial, in kind, or in person – to the UNOPS biennial administrative budget or projects; to enter into commitments and/or make project payments in advance of receipt of project funds (provided the funding source has granted such authority in writing); and to redeploy funds within an approved biennial administrative budget, provided that the biennium net revenue target established by the Executive Board remains unchanged.

5. Procurement-related provisions reflect UNOPS adherence to the general principles of: best value for money; fairness, integrity and transparency; effective competition; and the best interests of UNOPS and its clients.

6. The proposed Financial Regulations and Rules permit the Executive Director to make such ex-gratia payments as may be necessary in the best interests of UNOPS, provided the combined total of all such payments made in a biennium does

not exceed 0.25 per cent of the biennial administrative budget approved by the Executive Board.

7. These Financial Regulations and Rules address the effective and efficient management of all UNOPS resources, including cash, inventories, property, plant and equipment.

8. Finally, they require that UNOPS make full accrual for the value of future personnel benefits, including post-employment, termination, and, as the case may be, other long-term personnel benefits.

II. Rationale for change

9. UNOPS came into being as an independent entity of the United Nations system 14 years ago, in 1995, with Financial Regulations and Rules then in use by UNDP (available on the Executive Board website). Those regulations and rules, which have not changed in the intervening period, were not designed for the UNOPS self-financing business model, nor have they kept pace with the evolution of the United Nations or the maturation of UNOPS since its inception.

10. Even had the 'borrowed' regulations and rules suited UNOPS in 1995, they would long since have required amendment, just as the UNOPS governance structure has undergone revision to reflect the needs and realities of UNOPS in the twenty-first century. Significantly, UNDP revised its Financial Regulations and Rules several times in the past 14 years to bring them into line with changes taking place in the programme and the United Nations system, while UNOPS adhered to the anachronistic regulations and rules that were its birthright.

11. The revisions suggested are therefore overdue, a fact implicit in the decision of the Executive Board to consider new "comprehensively revised" Financial Regulations and Rules at its first regular session 2009. The present document addresses that request with a proposal that is comprehensive, appropriate for UNOPS business realities, and free of irrelevant rules; one that anticipates International Public Service Accounting Standards regarding revenue recognition and other issues; clarifies definitions (the revised Financial Rules and Regulations contain some 210 of them as opposed to just 19 in the 1995 version), and incorporates leading business practices compatible with the United Nations system. Indeed, the revisions proposed herein serve to harmonize the Financial Rules and Regulations of UNOPS with those of other United Nations organizations to the greatest extent possible.

12. The proposed UNOPS Financial Regulations and Rules are set forth in the annex, below; the original Financial Regulations and Rules are available on the Executive Board web page.

Annex 1. Proposed UNOPS Financial Regulations and Rules

Contents

A. Definitions **5**
Article 1. Definitions 5

B. Applicability and authority **19**
2. Applicability and authority 19

C. Accountability and responsibility **20**
3. Accountability and responsibility 20
4. Risk management 21
5. Internal control 22
6. External audit 24

D. UNOPS activities, revenue and project funds **24**
7. UNOPS activities 24
8. Utilization of resources administered by UNOPS for purposes other than procurement 25
9. Revenue and costs 26
10. Custody of project funds 28
11. Administration of project funds 28
12. Use of project funds 29

E. Biennial administrative budget and project budgets **31**
13. General framework 31
14. Biennial administrative budget submission and approval 31
15. Biennial administrative budget appropriations 34
16. Project budgets 35

F. Procurement **36**
17. General framework 36
18. Procurement activities 38

G. Payments **43**
19. Verification for payments 43
20. Ex-gratia payments 44

H. Management of resources administered by UNOPS **44**
21. Inventories, property, plant and equipment 44
22. Cash management 47
23. Accounting 51

A. Definitions

Article 1. Definitions

Regulation 1.01

For the purpose of the UNOPS Financial Regulations and Rules the following definitions of the main entities involved in the activities of UNOPS shall apply:

(a) Advisory Committee on Administrative and Budgetary Questions (ACABQ) – the Advisory Committee on Administrative and Budgetary Questions established by General Assembly resolutions 14 (I) of 13 February 1946 and 32/103 of 14 December 1977 and rules 155 to 157 of the rules of procedure of the General Assembly;

(b) Client – any entity to which UNOPS is authorized to provide goods, render services and/or other types of support, as may from time to time be established by the Executive Board, namely: any organization of the United Nations system (including international and regional financial Institutions) or entity acting through an organization of the United Nations system, any government, inter-governmental entity, international organization and non-governmental organization;

(c) Comptroller – the Comptroller of UNOPS;

(d) Deputy Executive Director – the Deputy Executive Director of UNOPS;

(e) Executive Board - the Executive Board of UNOPS;

(f) Executive Chief Procurement Officer – the Executive Chief Procurement Officer of UNOPS;

(g) Executive Director – the Executive Director of UNOPS;

(h) Funding source – either (i) a client which provides funds to UNOPS pursuant to a project agreement between UNOPS and that client, or (ii) where the funding source is not a client, the entity that provides funds to UNOPS with the written concurrence of a client pursuant to a signed project agreement between UNOPS and the funding source;

(i) General Assembly – the General Assembly of the United Nations;

(j) Government – the Government of a State Member of the United Nations or of a specialized agency or of the International Atomic Energy Agency;

(k) Implementing partner – a partner in implementation of UNOPS project activities typically carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201. Such partner shall be the entity to which the Executive Director has entrusted implementation of activities specified in a project agreement along with the assumption of full or partial responsibility and accountability for the effective use of financial assets and the delivery of outputs, as set forth in such project agreement;

(l) Secretary-General – the Secretary-General of the United Nations or the official to whom the Secretary-General has delegated authority and responsibility for the matter in question;

(m) UNOPS – the United Nations Office for Project Services, established by General Assembly decision 48/501 of 19 September 1994, in accordance with

the UNDP/UNFPA Executive Board decision 95/1 of 10 January 1995, 94/32 of 10 June 1994 and 94/12 of 9 June 1994.

Regulation 1.02

For the purposes of the Financial Regulations and Rules of UNOPS the following definitions of specific terms used shall apply. These terms are listed in alphabetical order.

accountability – the obligation to:

(a) Demonstrate that work has been conducted in accordance with agreed rules and standards; and

(b) Report fairly and accurately on performance results vis-à-vis mandated roles and/or plans.

accounting policies – the specific principles, bases, conventions, rules and practices adopted by UNOPS in preparing and presenting financial statements;

accounting records – the manual or computerized records of assets and liabilities, monetary transactions, and supporting documents (such as contracts, checks, invoices, and vouchers), which an organization is required to keep for certain number of years;

accounts payable – represent the current liability, the monetary value of which an entity owes to contractors for goods or services purchased on credit;

accrual – the basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are (contingent) assets, (contingent) liabilities, net assets/equity, revenue and expenses;

actuarial valuation – the estimate of an amount to be accrued during the reporting period in order to meet current and future costs of post-employment benefits;

advance financing – the authorization to incur partial expenditures pursuant to a project agreement but prior to receipt of project funds;

allocable costs – those expenses which are generally incurred to benefit a group of activities and projects. All such expenses are normally aggregated in a corporate pool and then distributed at regular intervals between activities under the biennial administrative budget and relevant projects in a reasonable, measurable and practical manner, in accordance with pre-defined distribution keys and based on expenditure recorded to-date. Allocable costs are not covered by the management fee;

allocation – the financial authorization issued by the Executive Director to incur expenditures and commitments for specific project activities and within limits defined in the project agreement, during a definite period and in the reporting currency;

allotment – the financial authorization granted by the Executive Director to a business unit to enter into financial obligations for specific purposes approved in the biennial administrative budget and within specified limits, during a definite period and in the reporting currency;

appropriation – the authorization granted by the Executive Board to allocate funds for specified purposes for the current biennial administrative budget, against which commitments may be incurred for those purposes up to the amounts so approved;

assets – comprise (a) tangible assets or resources, controlled by UNOPS as a result of past events, including work in progress, and from which future economic benefits or service potential are expected to flow to UNOPS, that are physical in nature, have a value above the threshold set by the Executive Director and are included in the inventory, excluding cash and cash equivalents; and (b) intangible assets or resources, controlled by UNOPS as a result of past events, including work in progress, and from which future economic benefits or service potential are expected to flow to UNOPS, which do not have a physical existence, including but not limited to franchises, trademarks, patents, copyrights, goodwill, securities, financial instruments and contracts;

audit – the systematic examination and verification of UNOPS accounts and transaction records, other relevant written documents, and physical inspection of property, plant and equipment by qualified accountants;

authorization - process used in verifying that the personnel who has requested or initiated an action has the right to do so;

authorized personnel – personnel who are in possession of a delegation of authority to perform authorized actions within specified monetary values and time frames;

authorized spending limit – the threshold of expenditure;

bank transfer – the electronic transfer of funds through the cable and wireless networks that unite the world's banking system;

best value for money – the trade-off between price and performance that provides the greatest overall benefit under the specified selection criteria;

bid – a complete proposal (usually submitted in competition with other bidders) to execute specified job(s) within prescribed time, and typically not exceeding a proposed amount (that usually includes labour, equipment, and materials);

bid security – the deposit of cash, certified check, cashier's check, bank draft, money order, or bid bond submitted with a bid and serving to guarantee that the bidder, if awarded the contract, will execute such contract in accordance with the bidding requirements and the contract documents;

biennial administrative budget – the approved budget for two years, specified by the Executive Board, to cover the costs of UNOPS operational activities (management and administration). It excludes estimates for periods beyond the reporting period;

biennium – refers to two consecutive calendar years, the first of which shall be an even-numbered year;

borrowing – obtaining cash or cash equivalents from a third party against a legal obligation to return the amount so borrowed within a definite period of time, with or without interest;

broadbanding – a practice in which the number of grades in a pay-scale structure is reduced, and the differential between one grade and the next is increased.

Broadbanding is intended to decrease rivalry in personnel from different business units and to increase flexibility;

budget – a summary of intended expenditures allocated for a specified purpose;

budget review – the periodic review of estimates that formed the basis of the biennial administrative budget;

budgetary basis – the accrual, cash or other basis of accounting adopted, at a specified level of detail, in the budget that has been approved by the Executive Board;

business model – the description of means and methods an entity employs to earn the revenue projected in its work plans;

business unit – an operation or office that is led by the respective key management personnel. In UNOPS, these units typically consist of headquarters, regional offices and operations centres;

capital – the measure of the accumulated financial strength of an entity, created by sacrificing present consumption in favour of investment to generate future revenue above investment costs;

capitalization – the recording of a cost of property, plant and equipment (written off as depreciation over one or several reporting periods);

cash – comprises cash on hand and demand deposits;

cash equivalents – any short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value;

cash flows – the inflows and outflows of cash and cash equivalents;

cash management – the organization and coordination of the activities of an entity aimed at administering its resources in cash and cash equivalents, in accordance with established policies and procedures and in achievement of clearly defined objectives;

commitment – the anticipated or contingent liability against funds allocated for the current or future year(s);

committing officers –personnel who have been delegated in writing a defined level of authority to commit UNOPS funds for specified purposes and have accepted accountability for same;

community-based organization – a self-organized network of people with a common agenda, cause, or interest, who collaborate by sharing ideas, information, and other resources;

compensating controls – supplementary internal controls that provide reasonable assurance to key management personnel that the business unit has an adequate risk management strategy in place to compensate for the inability to institute complete separation of duties;

compensation scheme(s) – motivational programme(s) designed to encourage personnel to increase productivity or achieve some worthwhile objective;

competitive selection process – the process whereby potential contractors compete by offering their best practicable combination of price, quality, and service;

contingent asset – the possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNOPS;

contingent liability – comprises:

(a) A possible financial obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNOPS; or

(b) A present financial obligation arising from past events but not recognized because:

(i) It is improbable that an outflow of resources embodying economic benefits or service potential will be required to settle the financial obligation; or

(ii) The amount of the financial obligation cannot be measured with sufficient reliability.

contract – a legally binding arrangement. In the area of infrastructure development, contracts are typically concluded on the basis of cost, or cost plus, or fixed price, and are specifically negotiated for an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function of their ultimate purpose or use;

contractor – an entity or individual providing any goods, services or works to UNOPS, or a third-party beneficiary designated by UNOPS, in exchange for monetary consideration pursuant to a contract between UNOPS and the contractor, and, as the case may be, the client;

contractual arrangement – a specific way of conducting business pursuant to a contract;

contribution – any cash, cash equivalents or in-kind resources provided to UNOPS by a funding source for a purpose specified in the contract. Contributions may be used by UNOPS to offset the costs incurred under the biennial administrative budget or project activities;

cost(s) – the amount of cash or cash equivalents paid, or the fair value of another consideration given, to acquire services or an asset at the time of its acquisition or construction;

cost-plus or cost-based contract – a contract in which the contractor is reimbursed for allowable or otherwise defined costs and, as the case may be, an additional percentage of those costs or a fixed fee, if any. The same definition shall apply, mutatis mutandis, to contracts between UNOPS and the client;

cost recovery – the business model whereby an entity has to ensure that its revenue is sufficient to cover its costs;

credit – the contract under which cash, goods or services are exchanged against a promise to pay later;

currency – cash in any form when in actual use as a medium of exchange;

currency fluctuation(s) – changes in the value of one currency relative to another;

current assets – all assets which:

(a) Are expected to be realized in, or are held for sale or consumption in, the normal course of the UNOPS operating cycle; or

(b) Are held primarily for trading purposes or for the short term and are expected to be realized within twelve months of the reporting date; or

(c) Are cash or a cash equivalent asset.

All other assets should be classified as non-current assets;

current liabilities – any liabilities which:

(a) Are expected to be settled in the normal course of the UNOPS' operating cycle; or

(b) Are due to be settled within twelve months of the reporting date.

All other liabilities should be classified as non-current liabilities;

custody – the immediate control and possession of assets for the reasons of care,http://www.businessdictionary.com/definition/safe.html observation, and safe keeping;

data exchange – specific means of exchanging information in raw form (such as alphabets, numbers, or symbols) that refer to, or represent, conditions, ideas, or objects;

delegate – the person in possession of a valid delegation of authority issued by authorized personnel;

delegation of authority – the written statement of conditions, procedures, and terms that a delegate must follow in executing a delegated task;

delivery – the transfer of title for a shipment through transfer of an original copy of the bill of lading to the consignee;

depreciation – the systematic allocation of the depreciable amount of an asset over its useful life;

derivative – a financial instrument whose characteristics and value depend upon the characteristics and value of an 'underlier', typically a commodity, bond, equity or currency;

direct costs – costs incurred for the benefit of a particular project or client(s). Such costs are clearly identifiable as having direct benefit for a particular project or client(s), and can be clearly documented. Direct costs are not covered by the management fee;

disbursement – the equivalent in the reporting currency of an actual amount paid;

electronic transfer – see 'bank transfer', above;

entity – an organization or business unit which has a legal existence, for which accounting records are kept, and about which financial statements are prepared;

estimate – an approximate calculation of quantity or degree or worth;

exchange transactions –transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange;

execution – the assumption of the overall management of specific UNOPS project activities and the acceptance of accountability to the Executive Director for the effective use of resources;

ex-gratia payment – a payment made where there is no legal liability but where a moral obligation, as determined by the Executive Director, justifies payment;

expenditure – total expenses incurred, whether paid or unpaid, i.e., the sum of disbursements and unliquidated obligations during the reporting period in respect of UNOPS projects and the biennial administrative budget;

expenses – decreases in economic benefits or service potential during the reporting period, in the form of outflows or consumption of assets or incurrences of liabilities, that result in decreases in net assets and/or equity;

external audit – a periodic or specific-purpose audit conducted by external (independent) qualified accountants;

fair value – the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction;

final budget – the approved budget adjusted for all reserves, carry-over amounts, transfers, allocations, supplemental appropriations, and other changes applicable to the reporting period;

financial asset – an asset that is:

(a) Cash;

(b) A contractual right to receive cash or another financial asset from another entity;

(c) A contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or

(d) An equity instrument of another entity.

financial instrument – a fixed-term contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The financial instrument is a written evidence of indebtedness that is freely (unconditionally) transferable as a substitute for cash;

financial liability – a liability that is a contractual legal obligation to:

(a) Deliver cash or another financial asset to another entity; or

(b) Exchange financial instruments with another entity under conditions that are potentially unfavourable.

financial obligation – an engagement involving a liability against the resources of the current year, or against future year(s) in respect of UNOPS project operating activities and the current biennium in respect of the biennial administrative budget;

financial performance – the status of the measurement of the results of the policies and operations of an entity, expressed in monetary terms;

financial position – the status of assets and liabilities, as reflected in the financial statements;

financial provision – a liability of uncertain timing or amount;

financial report – the set of documents prepared at the end of the reporting period, unless agreed otherwise in the project agreement;

financial statements – a set of financial data and explanatory notes, prepared in accordance with accounting policies, describing the corporate financial performance of UNOPS, during the reporting period;

financing activities –activities that result in changes in the size and composition of the contributed capital of UNOPS;

fixed price contract – a contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses;

foreign currency – a currency other than the reporting currency;

fund(s) – the sum of cash set aside and earmarked for a specified purpose;

gain – the increase in net assets;

going concern – the assumption, unless there is evidence to the contrary, that the entity will continue to operate indefinitely;

goods –tangible products capable of being delivered to a buyer and involving the transfer of ownership from seller to buyer;

grant support – a project activity which is outside the framework of procurement activities, and is undertaken by way of grants, credits or loans carried out through an implementing partner;

grass-roots organization – see 'community-based organization';

hedging – a risk-management strategy used to limit or offset the probability of loss from fluctuations in the prices of commodities, currencies, or securities. In effect, hedging is a transfer of risk without buying insurance policies;

gross revenue – all revenue earned prior to the deduction of expenses incurred;

implementation – the management and delivery of project activities to achieve specified results, including the procurement and delivery of project activity inputs and their use in producing outputs, as set forth in a signed project agreement between UNOPS and the implementing partner;

incentive payment(s) – the payment(s) made in connection with a compensation scheme;

indirect costs –costs incurred by the management and administration of the organization in furtherance of UNOPS activities and policies. Such costs are charged to projects through a management fee specified in the project agreement;

individual contractors – personnel retained by UNOPS in their individual capacity to undertake a specific assignment;

in-kind resources –resources contributed to UNOPS in a form other than cash or cash equivalents;

insurance contract – a contract that transfers from UNOPS to an insurer the identified risks of loss from events or circumstances occurring or discovered within a specified period, including death (in the case of an annuity, the survival of the

annuitant), sickness, disability, property damage, injury to others and interruption of operations;

inter alia – among other things;

interest – a fixed charge for borrowing cash, usually expressed as a percentage of the amount borrowed. Mutatis mutandis, interest may mean the amount earned as a result of investing activities;

internal control – a process, directed by the Executive Board and carried out by UNOPS management and other personnel, designed to provide reasonable assurance regarding robust risk management and the achievement of objectives and goals, aimed at increasing the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations;

internal control framework – comprises all the policies, procedures, monitoring and communication activities, standards of behaviour and other assurance activities designed to ensure orderly, ethical, economical, efficient and effective operations. It consists of five interrelated components: control environment; risk assessment; control activities; information and communications; and monitoring;

international auditing standards – the international professional standards for the performance of audit of financial and managerial information;

inventories – all tangible assets that are:

(a) In the form of materials or supplies to be consumed in the production process; or

(b) In the form of materials or supplies to be consumed or distributed in the rendering of services; or

(c) Held for sale or distribution in the ordinary course of operations; or

(d) In the process of production for sale or distribution.

investing activities – the acquisition and disposal of long-term assets and other investments not included in cash equivalents;

invitation to bid – the formal method of solicitation whereby a written invitation is issued to prospective contractors to submit a bid to provide goods or services;

invoice – the commercial instrument issued by a seller to a buyer that identifies both trading parties and lists, describes, and quantifies the items sold, shows the date of shipment and mode of transport, prices and discounts (if any), and delivery and payment terms;

key management personnel are:

(a) All directors or members of the Executive Board;

(b) Other persons having authority and responsibility for planning, directing and controlling the activities of UNOPS; and

(c) The senior management group of UNOPS, including the Executive Director.

lead time – the number of minutes, hours, or days that must be allowed for the completion of an operation or process, or that must elapse before a desired action takes place;

lease – a contract whereby in return for a payment or series of payments the lessor conveys to the lessee the right to use an asset for an agreed period of time. There are two types of leases, namely, a *finance lease*, which transfers substantially all the risks and rewards incident to ownership of an asset while title may or may not be eventually transferred; and an *operating lease*, which is a lease other than a finance lease;

legal obligation – an obligation that derives from:

(a) A contract (through its explicit or implicit terms); or

(b) Legislation; or

(c) Other operation of law.

liabilities – all present financial obligations of UNOPS arising from past events, the settlement of which is expected to result in an outflow from UNOPS of resources embodying economic benefits or service potential;

liquidity – the difference between current assets and current liabilities which is readily convertible into cash or cash equivalents. It is a measure of the ability of UNOPS to settle liabilities as and when they fall due and is usually expressed as a *ratio* or a *percentage* of current liabilities;

loan – the contract for a temporary transfer of a property (usually cash) from one party to another against the promise to return it according to the terms of the contract, usually with interest for its use;

long-term agreement – a written document signed with a contractor, issued following a competitive procurement process, which allows UNOPS to order specified goods or services at a fixed price, on agreed terms and conditions, for a definite period for time but with no legal obligation to order any minimum or maximum quantity;

loss – the decrease in net assets;

management and administration of the organization – activities of UNOPS business units whose primary functions are the maintenance of the identity, direction and corporate strategy and internal controls of the organization. Such units typically carry out the functions of executive direction, policy development, external relations, information, planning and resource (or project) management, finance and administration, and internal audit;

management fee – the sum payable to UNOPS for carrying out project activities pursuant to a project agreement. It should include all indirect costs associated with the development, negotiation, conclusion and implementation of such agreements;

mobilization of resources – the act of assembling, marshalling, or coordinating resources for a specific purpose;

monetary – relating to cash or currency;

multi-donor trust fund – a pool of contributions made by several funding sources pursuant to a project agreement for which a separate UNOPS account (or accounts) was established by the Executive Director;

mutatis mutandis – with the necessary changes having been carried out;

net assets/equity – the residual interest in the assets of the entity after deducting all its liabilities;

net present value – the total present value of a time series of cash flows;

net revenue – the difference between gross revenue and expenditure;

net surplus/deficit – comprises the following components:

(a) Surplus or deficit from ordinary activities; and

(b) Extraordinary items.

non-exchange transactions – transactions other than exchange transactions. In a non-exchange transaction an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange;

not-for-profit organizations –associations, charities, cooperatives, and other voluntary organizations formed to further cultural, educational, religious, professional, or public service objectives;

operating activities –activities of UNOPS that are not investing or financing activities;

operational reserve – the reserve established at the level set by the Executive Board with the aim of guaranteeing the financial viability and integrity of UNOPS as a going concern;

ordinary activities – any activities undertaken by UNOPS as part of its service delivery or trading activities. Ordinary activities include such related activities in which UNOPS engages in furtherance of, incidental to, or arising from these activities;

original budget – the initial approved budget for the budget period;

other long-term personnel benefits – all personnel benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the personnel render the related service;

outsourcing – obtaining goods or services from a contractor that holds a recognized competitive advantage in a specific field of work, thus allowing UNOPS to conduct its ordinary activities in a more effective and efficient manner;

oversight – the general process of review, monitoring, evaluation, supervision, reporting and audit of UNOPS programmes, activities, policy implementation and results. This is to ensure organizational, financial, operational and ethical accountability, effective internal controls, and prevention of fraud and malpractice;

ownership – an ultimate and exclusive right (which may be subject to certain restrictions) to enjoy, occupy, possess, rent, sell (fully or partially), use, give away, or destroy an item of property, plant and/or equipment;

payment – the compensation or discharge of a financial obligation, by giving over something that is of satisfactory value to its recipient, such as cash;

personnel – all UNOPS staff members and other individuals engaged by UNOPS under specific contractual arrangements to perform services for UNOPS project activities or administrative support;

personnel benefits – all forms of consideration given by UNOPS in exchange for service rendered by personnel;

policies and procedures – the principles and guidelines formulated or adopted by an organization to reach its long-term goals. They are designed to influence and determine all major decisions and actions, and all activities take place within the boundaries set by them. The policies and procedures may take the form of organizational directives, administrative instructions, standard operating procedures and other written documents;

post-employment benefits – those personnel benefits (other than termination benefits) which are payable after the completion of employment;

procurement – the acquisition of property, plant and/or equipment, goods, works or services through purchase, hire, lease, rental or exchange from any source other than United Nations system organizations;

procurement activities – actions undertaken to carry out procurement;

procurement modalities – the forms, protocols, or conditions that regulate the conduct of procurement activities;

procurement plan – the work plan regulating the procurement activities;

project – any undertaking by UNOPS on behalf of one or more of its clients in respect of which a separately identifiable project account (or accounts) has been established;

project account(s) – the formal, separate record of all financial transactions pertaining to a project established in the UNOPS accounts;

project activities –activities of UNOPS that are planned and carried out in accordance with project agreements;

project agreement – a legally binding document, together with any written amendments thereto, agreed between UNOPS and the client setting out the arrangements for services to a project and the budget for such services, including the UNOPS management fee;

project budget – the budget approved for a particular project pursuant to a project agreement;

project funds – all contributions in the form of cash or cash equivalents received from a funding source pursuant to a project agreement;

property, plant and equipment – tangible assets that:

(a) Are held by UNOPS for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) Are expected to be used during more than one reporting period.

remittance – see 'bank transfer';

reporting currency – the currency used in presenting the financial statements;

reporting date – the date of the last day of the biennium to which the financial statements relate unless otherwise agreed in the project document;

reporting period – a period of two calendar years in respect of which a separate set of financial statements is prepared, unless otherwise agreed in the project document;

request for proposals – a formal method of solicitation regulating the use of sealed-bid procurement procedures, whereby a purchaser typically advises the potential contractors in writing of the statement and scope of work, specifications, schedules or timelines, contract type, data requirements, terms and conditions, description of goods and/or services to be procured, general criteria used in the evaluation procedure, special contractual requirements, technical goals, and instructions for the preparation of technical, management, and/or cost proposals;

request for quotations – an informal method of solicitation whereby a document is issued to potential contractors, to solicit price and delivery quotations that meet minimum quality specifications for a specific quantity of specific goods and/or services. Requests for quotations are commonly used for standard, off-the-shelf items, items built to known specifications, items required in small quantities, or items whose purchase price falls below the sealed-bidding threshold;

requisition – a written order or a formal demand for goods or services (which is not made available without a specific request);

resources – the economic or productive factors required to accomplish an activity, or as means to undertake a project and achieve desired outcome;

resources administered by UNOPS – all contributions received and all revenue earned by UNOPS;

rewards and sanctions – a scheme to support and reinforce desirable behaviour on the part of personnel;

revenue – the gross inflow of economic benefits or service potential during the reporting period when that inflow results in an increase in net assets and/or equity, other than increases relating to contributions from owners;

revenue centre – a business unit which, as determined by the Executive Director, shall offset all the costs it incurs against the revenue it generates;

risk management – the set of policies, procedures, and practices involved in the identification, analysis, assessment, control, avoidance, minimization, or elimination of unacceptable risks;

risk tolerance – the capacity to accept or absorb risk;

self-financing – generating its capital from its own revenue, instead of acquiring it from external sources;

separation of duties – the principle of internal control according to which no personnel should be given responsibility for more than one related function;

service proposition – the portfolio of services offered to clients;

services – some or all of the following: (a) project management; (b) project supervision; (c) project execution; (d) implementation of components of projects; (e) loan administration; and/or (f) multi-donor trust fund management, each and all provided by UNOPS to or on behalf of a client;

signatory – the person who holds delegation of authority to bind UNOPS by his or her signature to the terms of a contract or payment;

signatory panel – a group of signatories with certain qualifications, selected by authorized personnel for a specific purpose and, as the case may be, limited time;

staffing table – the approved number and grades of employed personnel in an organization;

tender – the sealed bid or offer document submitted in response to a request for tenders and containing detailed information on requirements and terms associated with a potential contract;

termination benefits –personnel benefits payable as a result of either:

(a) A decision by UNOPS to terminate the employment of personnel before the normal retirement date; or

(b) A decision on the part of personnel to accept voluntary redundancy in exchange for those benefits.

third-party – someone who may be indirectly involved but is not a principal party to a contract or transaction;

threshold – the minimum or maximum value (established for an attribute, characteristic, or parameter) which serves as a benchmark for comparison or guidance and any breach of which may call for a complete review of the situation or the redesign of a system;

transaction – the event that effects a change in the asset, liability, or net worth account;

transparency – the process by which reliable, timely information about existing conditions, decisions and actions relating to UNOPS activities is made accessible, visible and understandable;

unliquidated obligation – an obligation or portion thereof that is not yet disbursed;

UNOPS account(s) –accounts established for the purposes of accounting for all revenue to UNOPS and all expenditures made by UNOPS against that revenue;

UNOPS activities – all undertakings by UNOPS, either in the form of services funded by projects or in the form of transactions funded from the UNOPS account;

useful life – either:

(a) The period of time over which a tangible asset is expected to be used; or

(b) The number of production or similar units expected to be obtained from a given, tangible asset by UNOPS.

value – monetary worth of an asset, goods sold or services rendered;

verification – comparison of two or more items, or the use of supplementary tests, to ensure the accuracy, correctness, or truth of the information;

verifying officers – personnel who have been delegated the authority to verify payments against UNOPS resources and have accepted accountability for it;

work plan(s) – the systematic sequencing and scheduling of the tasks comprising a project;

works – the construction or development of projects for public use;

voucher – the written instrument that serves to confirm or witness (vouch) for some fact such as a transaction. Commonly, a voucher is a document that shows goods have been bought or services rendered, authorizes payment, and indicates the account(s) in which these transactions have to be recorded;

write-off or writing-off – the act of cancelling a bad debt or worthless asset from a UNOPS account;

'written' or 'in writing' – a duly signed paper document or a document in electronic/digital form, that can be authenticated as having been produced by an authorized individual.

B. Applicability and authority

Article 2. Applicability and authority

Regulation 2.01

These Financial Regulations and Rules shall govern the financial management of the United Nations Office for Project Services (UNOPS) and shall, unless otherwise provided by the General Assembly or the Executive Board or as otherwise specified in these Financial Regulations and Rules, apply to all resources administered by UNOPS.

Regulation 2.02

Amendments and exceptions to the Financial Regulations may be made only by the Executive Board, after review by the ACABQ.

Regulation 2.03

These Financial Regulations and Rules shall become effective on 1 February 2009.

Regulation 2.04

The official language for the purpose of these Regulations and Rules shall be British English.

Regulation 2.05

With regard to any matter not specifically covered by these Financial Regulations, the appropriate provisions of the United Nations Financial Regulations shall apply mutatis mutandis.

Rule 102.01

(a) These Financial Rules shall apply to the financial administration of all UNOPS activities except as may otherwise be provided by the General Assembly or the Executive Board;

(b) The Executive Director may amend these Financial Rules in accordance with UNOPS Financial Regulation 3.02 (b);

(c) The Executive Director may, when necessary, suspend the application of any of these Financial Rules in accordance with UNOPS Financial Regulation 3.02 (c);

(d) With regard to any matter not specifically covered by these Financial Rules, the appropriate provisions of the United Nations Financial Rules shall apply mutatis mutandis.

C. Accountability and responsibility

Article 3. Accountability and responsibility

Regulation 3.01

The Executive Director of UNOPS is fully responsible and directly accountable to the Executive Board for all aspects of UNOPS activities.

Regulation 3.02

(a) The Executive Director shall issue detailed Financial Rules and procedures to ensure effective financial administration and economical use of resources. The Executive Director shall circulate the Financial Rules to the members of the Executive Board for information at least 30 days before they become effective;

(b) The Executive Director may amend the Financial Rules and shall circulate such amendments to the members of the Executive Board for information at least 30 days before they become effective;

(c) The Executive Director may, when he or she deems it necessary, suspend the application of any of these Financial Rules and shall circulate such suspensions to the members of the Executive Board for information as soon as they become effective.

Regulation 3.03

There shall be established UNOPS accounts to which all resources administered by UNOPS and receivable in cash shall be credited and against which all expenditures on behalf of UNOPS shall be debited.

Regulation 3.04

The reporting period for the purpose of the proposed utilization of resources and the incurring of, and accounting for, expenditures in respect of the biennial administrative budget shall consist of a biennium.

Regulation 3.05

The Executive Director may delegate to personnel any powers or responsibilities under these Financial Regulations and/or Rules, in whole or in part, through written delegation and, unless expressly prohibited by the Financial Regulations, such delegation may include the power to further delegate. Delegated powers and responsibilities shall follow these Financial Regulations and Rules.

Rule 103.01

Powers and responsibilities delegated by the Executive Director to other personnel shall follow these Rules. A record of all such delegations shall be maintained by the UNOPS general/legal counsel.

(a) The Executive Director may delegate, in whole or in part, the responsibility for administration of these Financial Regulations and Rules, including any application of the United Nations Financial Regulations and Rules, to the Deputy Executive Director (or to another member of personnel, as he may decide from time to time). The Deputy Executive Director may further delegate implementation thereof to other personnel;

(b) The Executive Director or his/her delegate may establish such policies and procedures as he/she may deem necessary for the administration and implementation of these Rules.

Rule 103.02

All personnel are responsible and accountable to the Executive Director for the regularity of actions taken by them in the course of their official duties. Any personnel who take any action contrary to these Financial Regulations or Rules, or to the policies and procedures which may be issued in connection therewith, may be held personally responsible and financially liable for the consequences of such action.

Rule 103.03

All heads of business units and other relevant personnel are accountable for the management of contracts and project agreements related to the projects for which they have delegated authority, and shall be held accountable for meeting their net revenue targets as established by the Executive Director or his or her delegate, and for ensuring that expenditures do not exceed approved allotments and allocations.

Rule 103.04

All business units designated by the Executive Director as revenue centres must ensure that the gross revenue they generate on an annual basis suffices to cover all costs they incur and a contribution to operational reserves, as prescribed by the policy on pricing and cost recovery, pursuant to Rule 109.06.

Rule 103.05

Bearing in mind the unique (in the United Nations system) nature of the fully self-financing business model of UNOPS and the resulting need for effective and efficient management of resources administered by UNOPS and attendant flexibility, the Executive Director may:

(a) Establish policies and procedures regulating performance management of personnel and relevant rewards and sanctions, including those of a monetary nature that may apply to all or some personnel;

(b) Establish policies and procedures governing the application of compensation schemes based on the concept of broadbanding; and

(c) Establish any other policies and procedures as may be required to increase the competitiveness of UNOPS' service proposition to the clients as long as said policies do not contradict the United Nations Staff Regulations and Rules.

Article 4. Risk management

Regulation 4.01

The Executive Director shall maintain a risk-management system to manage and control financial and other types of risks, including the identification, evaluation,

and measurement of possible impact on UNOPS, and the selection and maintenance of various solutions to mitigate risk.

Rule 104.01

The heads of UNOPS business units shall on an annual basis define their major risks and business opportunities as integral elements of setting management work plans.

Rule 104.02

Risk tolerance shall be defined periodically based on the changing business environment. Heads of UNOPS business units shall re-evaluate at least annually such risks and strategies to mitigate them.

Rule 104.03

A strategy and audit advisory committee shall be established with a view to, inter alia, advise the Executive Director on any significant risk management issues.

Rule 104.04

A policy advisory committee shall be established to provide policy guidance to the Executive Director on UNOPS activities.

Article 5. Internal control

Regulation 5.01

The Executive Director shall maintain an internal control mechanism which shall provide effective and efficient examination and review of financial, management and operational activities, to ensure:

(a) The regularity of the receipt, custody, disposal, expenditure, accounting and reporting of all resources administered by UNOPS, and the effectiveness of existing internal controls and accounting systems;

(b) The conformity of expenditures with supporting documents and with the purposes for which funds were appropriated or otherwise provided by the Executive Board and the appropriations issued in connection therewith, or with the purposes set out in relevant project agreements;

(c) The compliance of all UNOPS activities and transactions with established Financial Regulations and Rules, and policies and procedures; and

(d) The effective and efficient management of UNOPS operations and the effective, efficient and economic use of all resources administered by UNOPS, including those managed on behalf of its clients.

Rule 105.01

(a) The Deputy Executive Director shall specify the amounts above which establishment or amendment of a commitment is required. Such specified amounts shall be applied where there is a commitment to a single contractor in respect of a single requisition for a specific project or purpose, or where there is a series of commitments in any twelve-month period, to the aggregate value of such commitments excluding any commitments prior to and including the last commitment in respect of which written advice was rendered by a headquarters contracts and property committee(s). The above provision with regard to series of commitments does not apply to the use of long-term agreements;

(b) Resources administered by UNOPS must be committed by means of a written document as soon as a contract or undertaking of any nature has been entered into;

(c) Commitments shall not be made under a project agreement prior to the receipt of project funds except in cases of approved advance financing activities;

(d) For commitments or changes in commitments above the amounts specified by the Deputy Executive Director, and apart from the employment of personnel under an authorized staffing table and consequential commitments under the United Nations Staff Regulations and Rules, no contract or undertaking of any nature shall be entered into until resources have been reserved in the accounts. Exceptions must conform to the policy on advance financing activities.

Rule 105.02

(a) Committing officers shall be designated by the Deputy Executive Director or his/her delegate for each business unit, in consultation with the head of said business unit. Alternates may also be designated to act in the absence of the committing officers;

(b) The responsibilities of committing officers, including those for specific accounts assigned to them, shall be established by the Comptroller. Any authority granted and responsibility assigned to such officers is a personal one and cannot be delegated;

(c) Approval of a commitment shall indicate that its purpose is in accordance with the following principles:

(i) The activities to be financed are within the policies, approved strategy and plans of UNOPS;

(ii.) Funds necessary to satisfy the present or future liability are available in the relevant account for which the committing officer is responsible; and

(iii.) The commitment decision is in accordance with the financial regulations, rules, policies and procedures of UNOPS.

Rule 105.03

Verifying officers shall be designated pursuant to Rule 119.01 and shall perform the verification for payment procedures in accordance with Rule 119.03.

Rule 105.04

The Executive Director may arrange for an electronic/digital committing process, provided adequate safeguards are put in place to ensure the authentication, confidentiality and integrity of the committing process.

Rule 105.05

The Executive Director shall issue policies and procedures regarding prevention of fraud, harassment and abuse of authority, whistleblower protection, ethics and accountability framework.

Regulation 5.02

There shall be a separation of duties:

(a) Between personnel who may enter into commitments on behalf of UNOPS and personnel who may verify that payments may be made on behalf of UNOPS;

(b) Between personnel who may verify that payments may be made on behalf of UNOPS and personnel who may disburse resources on behalf of UNOPS;

(c) Between personnel who receive funds on behalf of UNOPS and personnel who register the deposit of funds; and

(d) Exceptions to (a), (b) and (c) above may be approved by the Comptroller, and the reasons for such decision may be recorded.

Regulation 5.03

There shall be an internal audit function which shall conduct independent, internal audits in conformity with generally accepted international auditing standards and, as the case may be, investigations in conformity with policies and procedures established by the Executive Director. The authority, accountability and responsibility of the internal audit office shall be defined in an internal audit charter issued by the Executive Director. Internal auditors shall review and report to the Executive Director on the use of resources administered by UNOPS and on the effectiveness, adequacy and application of internal control systems, policies, procedures and other relevant internal controls. The internal audit function shall have unlimited access to all books, records and other documents which are, in its opinion, necessary for the performance of the audit.

Rule 105.06

The internal audit office shall provide comments and recommendations to the Executive Director on financial, management and operational activities, pursuant to Regulation 5.01.

Article 6. External audit

Regulation 6.01

The external audit provisions of the United Nations Financial Regulations shall apply to UNOPS, except that:

(a) The reports of external auditors, together with the audited financial statements and the comments thereupon of the ACABQ, shall also be transmitted to the members of the Executive Board;

(b) As part of the comments submitted to the Executive Board with the audited UNOPS financial statements, the Executive Director shall comment on the external auditors' substantive observations and on their follow-up; and

(c) The Executive Board may, from time to time, make recommendations to the General Assembly as to which external entity shall act as the appointed auditor of UNOPS accounts.

D. UNOPS activities, revenue and project funds

Article 7. UNOPS activities

Regulation 7.01

Decisions taken by the Executive Board shall determine the nature and scope of UNOPS activities.

Regulation 7.02

UNOPS may enter into such written arrangements as are necessary to undertake UNOPS activities.

Regulation 7.03

Services shall be provided within the framework of a project agreement.

Rule 107.01

Project agreements shall stipulate that the provision of services by UNOPS shall in each instance be subject to the availability of the necessary resources provided by the client for such services. Other terms and conditions of such project agreements shall, inter alia, where applicable indicate those responsibilities which the client shall assume, the services and facilities it shall provide, and the arrangements for the suspension or termination of activities, settlement of disputes, and orderly closing of operations. Where the client is an organization of the United Nations system, such project agreement shall include, where possible, provision for the extension of privileges and immunities enjoyed by the United Nations in accordance with the Convention on the Privileges and Immunities of the United Nations, 1946, by the client to personnel, and in any event no provision of a project agreement shall be allowed to compromise the privileges and immunities of the United Nations and/or UNOPS.

Rule 107.02

Each project agreement shall specify those services which UNOPS shall furnish, and provide for reimbursement to UNOPS of all direct, allocable and indirect costs incurred by UNOPS.

Rule 107.03

The Executive Director shall establish a project acceptance committee(s) and specify their terms of reference in a relevant policy.

Rule 107.04

The Comptroller shall ensure that clients are provided, in a timely manner, with appropriate reports on project expenditure, as stipulated in the project agreements.

Article 8. Utilization of resources administered by UNOPS for purposes other than procurement

Regulation 8.01

(a) Pursuant to the project agreement UNOPS may associate with one or more other entities to carry out UNOPS project activities;

(b) An implementing partner so selected shall have a signed contract or other written arrangement between UNOPS and the entity or partner concerned, specifying the terms and conditions which govern the UNOPS project activities for which that entity or partner has been selected;

(c) The Executive Director may delegate authority, as appropriate, for selection of implementing partners and the oversight of their performance.

Rule 108.01

In the event of the termination of any project activities undertaken at the request of UNOPS pursuant to a project agreement, UNOPS shall reimburse the implementing partner for reasonable costs it may incur or may have incurred (and for which provision has been made in the project agreement) in carrying out UNOPS project activities up to the effective date of the termination, including:

(a) Reasonable costs incurred in phasing out UNOPS project activities; and

(b) Management fees in accordance with the project agreement.

Regulation 8.02

The Executive Director may agree to incorporate grant support in project agreements. Such support may be in the form of grants, credits or loans implemented through implementing partner(s) which includes, but is not limited to, support to non-governmental, community-based and grass-roots organizations.

Rule 108.02

Implementing partners for the provision of grant support shall be selected by UNOPS on a competitive basis in accordance with the relevant policies and procedures established by the Executive Director unless stipulated otherwise in the project agreement. Establishment of commitments relating to grant support shall be in conformity with Rules 105.01 and 105.02.

Article 9. Revenue and costs

Regulation 9.01

As a self-financing entity UNOPS shall operate on the basis of full cost recovery and shall set its management fees accordingly. Resulting from its ordinary activities during each biennium, UNOPS shall generate sufficient net surplus to maintain operational reserves at the level established by the Executive Board.

Regulation 9.02

UNOPS revenue from exchange transactions shall be measured at the fair value of the consideration received or receivable.

Rule 109.01

(a) When the outcome of a transaction involving the rendering of services by UNOPS can be estimated reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all of the following conditions are satisfied:

(i) The amount of revenue can be measured reliably;

(ii) It is probable that the economic benefits or service potential associated with the transaction will flow to UNOPS;

(iii) The stage of completion of the transaction at the reporting date can be measured reliably; and

(iv) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably;

(b) When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are receivable.

Rule 109.02

Revenue from the sale of goods by UNOPS should be recognized when all the following conditions have been satisfied:

(a) UNOPS has transferred to the purchaser the significant risks and rewards of ownership of the goods;

(b) UNOPS retains neither continuing managerial involvement, to the degree usually associated with ownership, nor effective control over the goods sold;

(c) The amount of revenue can be measured reliably;

(d) It is probable that the economic benefits or service potential associated with the transaction will flow to UNOPS; and

(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rule 109.03

Contract revenue should comprise:

(a) The initial amount of revenue agreed in the contract; and

(b) Variations in contract work, claims and incentive payments to the extent that:

(i) It is probable that they will result in revenue; and
(ii) They are capable of being reliably measured.

Rule 109.04

Contract costs should comprise:

(a) Costs that relate directly to the specific contract;

(b) Costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and

(c) Such other costs as are specifically chargeable to the client under the terms of the contract.

Rule 109.05

When the outcome of a contract can be estimated reliably, contract revenue and contract costs associated with said contract should be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

(a) In the case of a fixed-price contract, the outcome of a contract can be estimated reliably when all the following conditions are satisfied:

(i) Total contract revenue, if any, can be measured reliably;

(ii) It is probable that the economic benefits or service potential associated with the contract will flow to UNOPS;

(iii) Both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and

(iv) The contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

(b) In the case of a cost plus or cost based contract, the outcome of a contract can be estimated reliably when all of the following conditions are satisfied:

(i) It is probable that the economic benefits or service potential associated with the contract will flow to UNOPS; and

(ii) The contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Regulation 9.03

Nothing in these Financial Regulations or Rules shall prevent the Executive Director from accepting on behalf of UNOPS contributions, whether financial, in kind, or in person, to the UNOPS biennial administrative budget.

Rule 109.06

Pricing and cost recovery policies and procedures shall be established by the Executive Director and amended as needed. They shall specify UNOPS policies with regard to cost recovery and contribution to operational reserves.

Rule 109.07

In the event that UNOPS is requested to return management fees earned in a case where, in the opinion of the UNOPS general/legal counsel, there is no legal obligation to comply, the matter shall be decided by the Executive Director.

Article 10. Custody of project funds

Regulation 10.01

(a) The Executive Director is responsible and accountable for mobilizing resources effectively and efficiently in furtherance of the policies and activities of UNOPS;

(b) The Executive Director may delegate authority, as appropriate, for the mobilization of resources.

Regulation 10.02

Contributions from funding sources, whether financial, in kind, or in person, may be accepted by the Executive Director and utilized for project activities.

Regulation 10.03

There shall be established a UNOPS project account(s) to which all revenue earned by UNOPS shall be credited and against which all costs incurred by UNOPS shall be charged.

Rule 110.01

Separate project accounts may be established as required by UNOPS project activities for management of project funds.

Article 11. Administration of project funds

Regulation 11.01

All project funds shall be held by UNOPS on behalf of a funding source, subject to the provisions of these Financial Regulations and Rules and the respective project agreement.

Regulation 11.02

Without limiting Regulation 11.01, specific accounts may be established by the Executive Director to manage and/or administer project funds, including multi-donor trust funds. Such establishment may include, but not be limited to, acting in response to a request by the Secretary-General to provide assistance pursuant to resolutions of the Security Council or the General Assembly.

Rule 111.01

The Executive Director shall issue policies and procedures for the establishment, administration and/or management of project funds pursuant to Regulation 11.02. To ensure cost-effective administration of said funds the Executive Director may determine a minimum contribution level below which he or she may refuse to accept the contribution.

Rule 111.02

No account shall be established, managed or administered pursuant to Regulation 11.02 without the prior written approval of the Executive Director or his or her delegate, and in accordance with the policies and procedures issued pursuant to Rule 111.01.

Article 12. Use of project funds

Regulation 12.01

Subject to the availability of project funds, the Executive Director may enter into commitments relating to the biennial administrative budget or implementation of project agreements.

Regulation 12.02

The Executive Director shall ensure that total expenditure does not exceed available budget.

Regulation 12.03

The Executive Director may enter into commitments and/or make payments in respect of a project in advance of receipt of project funds, provided the funding source has granted authority in writing to UNOPS to incur expenditures for specific purposes in advance of receipt of such funds.

Rule 112.01

The Executive Director shall establish a policy on advance financing activities which will describe circumstances and conditions where payments in advance of receipt of project funds can be made.

Regulation 12.04

The Executive Director shall:

(a) Designate personnel who may make commitments on behalf of UNOPS and shall ensure that the procurement activities are carried out in accordance with these Financial Regulations and Rules and in compliance with the policies and procedures on procurement promulgated by the Executive Chief Procurement Officer; and

(b) Cause all commitments to be made on the basis of supporting documents which either:

(i) Contain specific written undertaking by the client in accordance with Regulation 12.03, or

(ii) Confirm that funds are available to cover the future liability, in the form of an allocation or an allotment; or

(iii) Ensure that all commitment decisions are within UNOPS aims and in accordance with the financial regulations, rules, policies and procedures of UNOPS.

Rule 112.02

Commitments may be assumed only after appropriate allocations consistent with the project activities covered by a specifically identified budget have been made, in writing, under the authority of the Executive Director.

Rule 112.03

Commitments to be charged to the project budget of a future reporting period may be assumed, provided they are for authorized activities expected to continue beyond the end of the current reporting period.

Rule 112.04

Charges to project funds shall be authorized through and subject to the terms of a project agreement.

Rule 112.05

Where a payment is made in a foreign currency, it shall be recorded in accounts in the reporting currency at a rate equivalent to the United Nations operational rate of exchange in effect on the day the payment is made by UNOPS.

Rule 112.06

Where a payment is received in a foreign currency, it shall be recorded in accounts in the reporting currency at a rate equivalent to the United Nations operational rate of exchange in effect on the day the payment is received by UNOPS.

Rule 112.07

If, during the period from the receipt of an invoice to the date of payment, or during the period from the request for client's payment under a project agreement to the date of receipt of said payment, a currency fluctuation results in a change in the reporting currency equivalent from the original amount stipulated on the invoice or in the project agreement, the difference shall be charged to a currency gain/loss account under the relevant project unless otherwise agreed in the project agreement.

Rule 112.08

(a) Disbursements shall be recorded as of the date they are made, i.e., when the cheque is issued, the bank transfer is requested or the cash is paid out;

(b) Receipts shall be recorded on the date received.

E. Biennial administrative budget and project budgets

Article 13. General framework

Regulation 13.01

(a) The Executive Director is responsible and accountable for planning the use of resources administered by UNOPS and issuing allocations and allotments effectively and efficiently in furtherance of the policies, aims and activities of UNOPS;

(b) The Executive Director may delegate authority, as appropriate, for the planning of the use of resources administered by UNOPS and issuance of allocations and allotments.

Rule 113.01

The Deputy Executive Director shall be responsible, on behalf of the Executive Director, for planning and allocating the resources made available to UNOPS so as to optimize their use.

Article 14. Biennial administrative budget submission and approval

Regulation 14.01

The Executive Director shall, in accordance with the budgetary basis approved by the Executive Board, prepare the proposed biennial administrative budget setting out the projected costs of management and administration of UNOPS and projected revenue, each for the period of the next biennium.

Regulation 14.02

The biennial administrative budget shall cover proposed expenditures and anticipated revenue relating to the biennium and shall be submitted in the reporting currency. The Executive Director shall have authority to redeploy funds within the approved biennial administrative budget as well as to increase or reduce the total approved biennial administrative budget allocation (including the number of personnel posts in the staffing table and their grades up to and including the D-2 level), provided the net revenue target established by the Executive Board for the biennium remains unchanged.

Regulation 14.03

The Executive Director shall submit the proposed biennial administrative budget to the Executive Board, and shall transmit same to all members of the Executive Board at least six weeks prior to the opening of the Board session designated for said budget.

Regulation 14.04

The approval by the Executive Board of appropriations in the biennial administrative budget shall, subject to the availability of funds, constitute authorization to the Executive Director, or to such other personnel as the Executive Director shall

designate from time to time, to make commitments and payments for those purposes for which the appropriations were approved and up to the amounts so approved.

Regulation 14.05

(a) Biennial administrative budget estimates shall be submitted to the ACABQ for comment prior to presentation of said estimates to the Executive Board;

(b) The ACABQ shall be requested to prepare a report, for submission to the Executive Board, on the proposed biennial administrative budget. That report shall be transmitted to all members of the Executive Board as soon as it is available;

(c) The proposed budget, together with the ACABQ report thereon, shall be considered for approval by the Executive Board in January of the first year of the biennium to which the budget relates.

Regulation 14.06

The proposed biennial administrative budget, specifying both revenue and expenditure, shall be prepared in the form adopted by the Executive Board.

Regulation 14.07

Until such time as the biennial administrative budget has been approved by the Executive Board, the UNOPS Executive Director may authorize advance expenditures under the administrative budget, provided the total amount so expended on a monthly basis does not exceed one twelfth of the approved biennial administrative budget for the second year of the previous biennium.

Regulation 14.08

The Executive Director may prepare supplementary proposals to amend the biennial administrative budget in a form consistent with the approved biennial administrative budget, and submit such proposals to the Executive Board. They shall also be submitted to the ACABQ, which shall be requested to review them and report thereon to the Executive Board.

Rule 114.01

(a) For each biennium, the UNOPS biennial administrative budget shall be established within the parameters established by the Executive Director;

(b) The Executive Director shall develop the budget proposals in consultation with the heads of UNOPS business units;

(c) The Executive Director shall approve the final biennial administrative budget to be submitted to the Executive Board.

Rule 114.02

The Executive Director shall decide whether or not a supplementary biennial administrative budget proposal should be submitted to the Executive Board.

Rule 114.03

The proposed biennial administrative budget shall comprise:

(a) An executive summary, providing an overview and the strategy adopted;

(b) The work plan of the organization, covering estimates of resources to be administered by UNOPS and the suggested use of such resources;

(c) Relevant tables, figures and explanatory statements on budget estimates, revenue targets and posts. For purposes of comparison, figures for the approved administrative budget of the preceding biennium shall be included beside the estimates for the proposed budget;

(d) The draft appropriations decision; and

(e) Such other details as the Executive Board may prescribe.

Rule 114.04

Revenue estimates must take into account all expected management fees from projects, any other revenue already earned or likely to be earned, and relevant statistical trends for acquisition of new projects or means of earning other revenue during the biennium to which any resulting revenue would be applied.

Rule 114.05

(a) Supplementary proposals to amend the biennial administrative budget may be submitted if inflation estimates, currency fluctuations, or other cost factors are likely to have significant effect on approved appropriations;

(b) The proposed biennial administrative budget shall contain provision for the refund to relevant personnel, as may be the case, of income taxes levied on them in respect of earnings derived from employment with UNOPS.

Rule 114.06

The heads of UNOPS business units shall submit their biennial administrative budget proposals to the Executive Director in such detail and at such times as shall be stipulated from time to time by the Executive Director.

Rule 114.07

Allotments consistent with the approved biennial administrative budget shall be issued annually to each business unit for the accounts under its control, together with a staffing table indicating the number and level of approved posts. The verifying officer for each business unit shall be responsible for ensuring that expenditures do not exceed the authorized spending limit.

Rule 114.08

Requests to the Executive Director by business units for revision of the level of funds provided pursuant to annual authorizations shall be accompanied by a detailed justification for the required change(s).

Rule 114.09

The Executive Director shall assess actual revenue against projected revenue on a regular basis during the reporting period to determine whether adjustments to the estimates are necessary and whether any such adjustments would create a net deficit in the approved biennial administrative budget.

Rule 114.10

The Executive Director shall ensure that all UNOPS business units undergo a mid-year budget review exercise.

Article 15. Biennial administrative budget appropriations

Regulation 15.01

Appropriations for the biennial administrative budget approved by the Executive Board shall constitute an authorization to the Executive Director to enter into commitments and to make payments for those purposes for which the appropriations were approved and up to the amounts so approved.

Regulation 15.02

Appropriations for the biennial administrative budget shall be available for commitment during the biennium to which they relate.

Regulation 15.03

(a) Appropriations shall remain available for twelve months following the end of the year to which they relate to the extent that they are required to discharge any outstanding legal obligation of that year. The balance of the appropriations, if any, shall revert to the UNOPS accounts;
(b) At the end of such twelve months' period, any unliquidated obligations of the prior year shall be cancelled or, where the financial obligation remains a valid charge, transferred as a financial obligation against current appropriations.

Rule 115.01

(a) The Executive Director or his/her delegate is responsible for ensuring that the authorized spending limits remain within the approved appropriations; and

(b) Authorization by the Executive Director or his/her delegate to expend biennial administrative budget appropriations may take the form of:

(i) An authorized spending limit or other authorization to commit funds for a specific period and/or a specific purpose; and/or
(ii) An authorization for the employment of personnel.

Rule 115.02

(a) An authorized spending limit shall be issued at least annually by the Executive Director or his/her delegate to each business unit for the budget lines under its control;

(b) The committing officers in each business unit are responsible for ensuring that expenditure control policies and procedures are adhered to as described in section G.

Rule 115.03

Commitments in the interest of UNOPS against resources anticipated for future reporting periods may be authorized only by the Executive Director or his/her delegate. Such commitments shall normally be restricted to requirements of a continuing nature and to other contractual arrangements where longer lead times are required to ensure timely delivery, and shall be promptly recorded in UNOPS accounts as soon as the relevant appropriations have been approved by the Executive Board.

Rule 115.04

(a) An authorized staffing table shall be issued biennially by the Deputy Executive Director or his/her delegate to each business unit, indicating the number and level of approved posts;

(b) The director of human resources shall be responsible for exercising overall control of the staffing table to ensure that total posts by level as authorized by the Executive Board are not exceeded unless an authorization from the Executive Director has been obtained.

Rule 115.05

The Executive Director or his/her delegate may authorize transfer of allotments between business units, provided such transfers are within the total appropriations approved by the Executive Board.

Article 16. Project budgets

Regulation 16.01

UNOPS shall maintain a project budget from which to fund the project activities, including services, undertaken in respect of a project. Said project budget shall include all management fees in respect of such services.

Rule 116.01

Subject to the Financial Regulations and Rules, project budgets shall be managed in accordance with the terms of the project agreement.

Rule 116.02

UNOPS shall not render any services without a project budget approved by the Executive Director or his/her delegate.

Rule 116.03

Unless otherwise agreed, the approval of the funding source shall be required for original and all subsequent budget revisions, except those which do not change total budgeted amounts.

Rule 116.04

Transfer of allocations between the budgets of different projects, whether or not such projects are funded by the same funding source, shall not be permitted without the prior written authorization of said funding source, unless stated otherwise in the project agreement.

Regulation 16.02

A project budget shall be established prior to the recording of any project related transaction(s) unless the project agreement stipulates that an already-established project budget of a United Nations system organization shall be used for such purposes.

Rule 116.05

Whenever a project budget ceases to reflect actual circumstances or most recent estimates in any significant respect, it shall be revised accordingly.

Rule 116.06

Unless otherwise stipulated in the project agreement, the expenditures in any given year may exceed an approved project budget, provided that the total amount made available by the funding source in accordance with the project agreement is not exceeded.

Rule 116.07

(a) As soon as project activities have ceased they shall be declared operationally completed and a financial report shall be prepared, in conformity with established procedures and reflecting actual expenditures to date;

(b) Project activities shall be considered financially completed when they have been operationally completed or terminated, and if all transactions have been recorded, the relevant project accounts closed, and a final financial report approved;

(c) The financial completion of project activities shall be accomplished within eighteen months after the month in which they are operationally completed or terminated.

F. Procurement

Article 17. General framework

Regulation 17.01.

Expenditures and commitments in connection with procurement activities shall be incurred only after allocations for UNOPS project activities, allotments in respect of the biennial administrative budget, or other appropriate authorizations, have been made in writing under the authority of the Executive Director.

Regulation 17.02

Unless otherwise expressly authorized by the Executive Director, there shall be a separation of duties, pursuant to Regulation 5.02.

Regulation 17.03

The Executive Director shall ensure that UNOPS enter into commitments related to procurement activities pursuant to the provisions of Regulation 12.04.

Rule 117.01

(a) The Executive Chief Procurement Officer (this functional role is assigned to the Deputy Executive Director or another member of personnel, as may from time to time be designated by the Executive Director) shall designate, for each business unit, one or more personnel as committing officer(s) for procurement activities, and shall establish the authority and responsibility of those committing officers;

(b) Any authority granted and responsibility assigned to such committing officers is for those individuals only and cannot be further delegated without written approval by the Executive Chief Procurement Officer, or personnel with delegated authority from the Executive Chief Procurement Officer, to approve sub-delegations;

(c) Contracts and property committees may be established by the Executive Director at headquarters and, as the case may be, in regional offices. The Executive Director shall specify the authority, purpose and powers of the committee(s), including the types and monetary values of proposed procurement activities, subject to review by the committee.

Rule 117.02

Resources for procurement activities must be committed pursuant to Rules 105.01 and 105.02.

Rule 117.03

(a) Each proposed commitment, accompanied by appropriate supporting documentation, shall be approved by a committing officer;

(b) Committing officers shall submit such further explanations or justifications as the Executive Chief Procurement Officer may require;

(c) The Executive Chief Procurement Officer may reject any proposal for commitment or expenditure;

(d) The Executive Chief Procurement Officer shall have the authority to approve commitments under all accounts.

Rule 117.04

Pursuant to Regulation 5.02 (d), regarding exceptions to the separation of duties, such exceptions shall be made in accordance with the following:

(a) All exceptions shall be granted by the Comptroller;

(b) At least two signatories are required to authorize any expenditure of funds;

(c) The exception will be granted for a definite period of time; and

(d) The exception shall be granted on the basis of compensating controls proposed by the head of the business unit.

Rule 117.05

The Executive Chief Procurement Officer or his/her delegate may procure corporate insurance contracts to mitigate the risks of catastrophic losses to UNOPS.

Rule 117.06

The Executive Director shall have the authority to settle any disputes, controversies or claims when he/she determines, on the advice of the general/legal counsel, that such course of action is in the best interests of UNOPS. All such settlements shall be disclosed in the financial statements.

Rule 117.07

In instances when UNOPS takes part in competitive selection for any type of procurement, the Executive Chief Procurement Officer may authorize the purchase and submission of bid security.

Rule 117.08

The Executive Director shall have the authority to outsource any ordinary activities to other entities within and outside the United Nations system. Such outsourcing may include, but is not limited to: investing activities; general accounting; payroll, the administration of human resources; travel; and information and communications technologies. Any outsourcing shall follow the general principles stated in Regulation 18.02.

Article 18. Procurement activities

Regulation 18.01

The Executive Director is responsible and accountable for carrying out the procurement activities of UNOPS effectively and efficiently in the furtherance of its policies and aims. The Executive Director may delegate authority, as appropriate, for procurement activities.

Regulation 18.02

The following general principles should receive due consideration when undertaking the procurement activities of UNOPS:

(a) Best value for money;

(b) Fairness, integrity and transparency;

(c) Effective competition; and

(d) The best interests of UNOPS and its clients.

Regulation 18.03

Competitive tenders in connection with procurement activities shall be invited by distribution of formal invitations to bid, or requests for proposals through advertisements or direct solicitation of invited contractors, except where the Executive Director determines that a departure from this principle is in the best interests of UNOPS.

Rule 118.01

Procurement authority and responsibility

(a) The Executive Chief Procurement Officer of UNOPS is accountable to the Executive Director for all procurement activities of UNOPS for all its locations;

(b) The Executive Director shall ensure that UNOPS procurement activities are carried out in accordance with the relevant Financial Regulations and Rules and policies and procedures on procurement. To that end, the Executive Director shall instruct the Executive Chief Procurement Officer to:

(i) Establish the necessary controls, including those for delegations of authority, and issue such policies and procedures as may be necessary to protect the integrity of the procurement process and the best interests of UNOPS;

(ii) Cause the contracts and property committee(s), at headquarters or regional offices (established pursuant to Rule 117.01 (c), to render written advice to the Executive Chief Procurement Officer or regional director on procurement activities leading to the award or amendment of procurement contracts which, for purposes of these Financial Regulations and Rules, include written instruments, such as contracts, that generate revenue to UNOPS; and

(iii) Ensure that, where the advice of the contracts and property committee(s) established under the preceding provisions of this rule is required, no final action leading to the award or amendment of a procurement contract is taken before such advice is received and acted upon by the Executive Chief Procurement Officer or, as the case may be, the regional director. Only the Executive Chief Procurement Officer may

make a decision contrary to the recommendation of a contracts and property committee(s). In cases where he/she so decides, the reasons for such decision may be recorded;

(iv) Cause the contracts and property committee(s) to ensure that appropriate authority has been obtained for the commitment of funds; that the best interests of UNOPS and its clients are protected; and that the procurement activities are carried out in conformity with these Financial Regulations and Rules, relevant policies and procedures and are in accordance with generally recognized leading business practices; and

(v) Ensure that no contract is entered into on behalf of UNOPS except by the Executive Chief Procurement Officer or other personnel with delegated authority.

(c) The Executive Director is accountable for the selection and award of contracts to individual contractors who provide professional services to UNOPS. The Executive Director shall establish the necessary controls and may delegate to other personnel the authority to select and issue contracts to individual contractors. The contracting of individual contractors shall be governed by the relevant UNOPS policies and procedures related thereto;

(d) Procurement may be authorized where sufficient allotment or allocation has been made in the approved budget. In cases where purchases on behalf of UNOPS by other organizations or entities are authorized, the funds provided by UNOPS for such purchases shall be released only on the basis of a contract between UNOPS and the organization or entity concerned. The agreement shall specify the nature and extent of the procurement activities to be undertaken on behalf of UNOPS and shall provide for administration of the funds and execution of the activities approved by UNOPS, in accordance with the regulations and rules of such organization or entity or, where such regulations and rules are deemed inadequate, in accordance with these Financial Regulations and Rules.

Rule 118.02

Procurement modalities

(a) Unless otherwise provided by the Executive Chief Procurement Officer, all procurement activities on behalf of UNOPS may be carried out only by personnel duly authorized for the purpose. Procurement activities include: entering into contract; distribution of formal invitations to bid; proposals through advertisements or direct solicitation of invited contractors; and negotiation of contracts where exception to the use of formal methods of solicitation has been granted in accordance with Rule 118.05;

(b) Authorized personnel shall be responsible for all procurement on behalf of UNOPS in respect of activities undertaken by UNOPS, or any other activity or service authorized by the Executive Director. Authorized personnel may approve purchases, on behalf of UNOPS, by or through a client with which UNOPS cooperates in the execution of approved UNOPS activities;

(c) *Cooperation with United Nations system organizations.* The Executive Chief Procurement Officer, or authorized personnel, may cooperate with other organizations of the United Nations system to meet the procurement requirements of UNOPS. The Executive Chief Procurement Officer, or authorized personnel, may, as appropriate, enter into agreements for such purposes. Such cooperation may include jointly carrying out common procurement activities, or UNOPS entering into a contract relying on a

procurement decision of another United Nations system organization or requesting another United Nations system organization to carry out procurement activities on behalf of UNOPS;

(d) *Cooperation with governments and organizations other than those of the United Nations system.* The Executive Chief Procurement Officer, or authorized personnel, may cooperate with clients other than those from an organization of the United Nations system, in respect of procurement activities, and enter into agreements for such purpose;

(e) *Pre-selection.* Pursuant to the project agreement and subject to review by a contracts and property committee(s), where necessary in accordance with these Financial Regulations and Rules, the Executive Chief Procurement Officer may authorize the issuance of contracts in reliance on the prior selection of a contractor or implementing partner by the funding source;

(f) *Participation in competitive selection processes.* The Executive Chief Procurement Officer may authorize the participation of UNOPS in competitive selection processes, such as tenders. UNOPS may submit joint bids with other entities when such action is deemed to be in the best interests of UNOPS and its clients.

Rule 118.03

Procurement contracts shall be awarded on the basis of effective competition, and to that end the competitive process should include:

(a) Acquisition planning for developing an overall procurement strategy and methodology;

(b) Market research for identifying potential contractors;

(c) Competition on as wide a geographic basis as is practicable and suited to market circumstances; and

(d) Consideration of prudent commercial practices.

Rule 118.04

Award of procurement contracts on the basis of formal methods of solicitation

(a) The Executive Chief Procurement Officer may issue policies and procedures concerning the type of procurement activities and monetary values for which formal methods of solicitation are to be used. Such methods of solicitation require either the utilization of invitations to bid, or requests for proposals on the basis of advertisements or direct solicitation of invited contractors. Requests for quotations are not deemed to be a formal method of solicitation;

(b) The award of a contract shall be made after due consideration has been given to the general principles described in Regulation 18.02 and in accordance with the following:

(i) When a formal invitation to bid has been issued, the contract shall be awarded to the best qualified contractor whose bid substantially conforms to the requirements set forth in the solicitation documents and offers the lowest cost to UNOPS, provided that, if the best interests of UNOPS and its clients so require, any and all bids may be rejected, in which case the reasons for rejection may be recorded in writing; and

(ii) When a formal request for proposals has been issued, the contract shall be awarded to the qualified contractor whose proposal is considered to be

the best value (technical and financial) and the most responsive to the needs of UNOPS and its clients;

(c) In the event that the Executive Chief Procurement Officer decides, in the best interests of UNOPS, to reject bids or proposals for a particular procurement activity, he/she shall then determine whether to undertake a new solicitation, or to negotiate a contract directly pursuant to Rule 118.05, or to terminate or suspend the procurement activity.

Rule 118.05

Award of procurement contracts on the basis of exceptions to the use of formal methods of solicitation

(a) The Executive Chief Procurement Officer or authorized personnel may determine, for a particular procurement activity, that using formal methods of solicitation is not in the best interests of UNOPS and its clients when:

(i) The value of the procurement is below a specified monetary threshold established for formal methods of solicitation;

(ii) There is no competitive marketplace for the requirement, such as where a monopoly exists; where prices are fixed by legislation or government regulation; or where the requirement involves a proprietary product or service;

(iii) There has been a previous determination with regard to an identical procurement activity, or there is a need to standardize the requirement following recent procurement activity;

(iv) The proposed procurement contract is the result of cooperation with other organizations of the United Nations system, pursuant to Rule 118.02 (c);

(v) Offers for identical requirements have been obtained competitively within a reasonable period and the prices and conditions offered by the proposed contractor remain competitive;

(vi) A formal solicitation has not produced satisfactory results within a reasonable prior period;

(vii) The proposed procurement contract is for the purchase or lease of real property;

(viii) There is a genuine exigency for the requirement;

(ix) The proposed procurement contract relates to obtaining services that cannot be evaluated objectively; and

(x) The Executive Chief Procurement Officer otherwise determines that a formal solicitation will not give satisfactory results;

(b) The Executive Chief Procurement Officer shall establish policies and procedures governing the selection for and award of contracts under 'emergency procedures';

(c) When a decision is made pursuant to Rule 118.05 (a), the Executive Chief Procurement Officer or authorized personnel may record the reasons in writing and may then award a procurement contract, either on the basis of an informal method of solicitation or on the basis of a directly negotiated contract, to a qualified contractor whose offer substantially complies with the requirements at an acceptable price.

Rule 118.06

Written procurement contracts shall be used to formalize every procurement activity with a monetary value exceeding specific thresholds established by the Executive Chief Procurement Officer. Such arrangements shall, as appropriate, specify in detail:

(a) The nature of the products or services being procured;
(b) The quantity being procured;
(c) The contract or unit price;
(d) The period covered;
(e) Conditions to be fulfilled, including UNOPS general conditions of contract and implications of non-delivery;
(f) The terms and place of delivery, payment and the currency of payment;
(g) The procedure for the settlement of disputes; and
(h) The name and address of the contractor.

Pursuant to Rule 105.04, the requirement for written procurement contracts shall not be interpreted to restrict the use of any electronic means of data exchange.

Rule 118.07

The Executive Chief Procurement Officer may authorize the establishment of long-term agreements with contractors. The availability of a long-term agreement, established through the competitive process and following review by the contracts and property committee(s), shall obviate the need for subsequent review by such committee(s) of future orders made under the long-term agreement.

Rule 118.08

The Executive Director shall establish requirements for preparing and maintaining procurement plans that facilitate the effective and efficient purchase, delivery and final disposition of property, plant and equipment and services acquired. Procurement plans shall include an indication of the goods and services required for a project, the time of delivery, and the expected final disposition. Procurement plans, as well as specific solicitations to submit bids or proposals, shall be made generally available to the public through appropriate means of disclosure.

Regulation 18.04

Subject to adherence by UNOPS to the general principles set out in Regulation 18.02, the Executive Director may agree to apply the regulations, rules, policies and procedures on procurement of any client or such other entities as the Executive Director may decide. In such circumstances, the UNOPS Financial Regulations and Rules relating to procurement shall be deemed to be waived.

G. Payments

Article 19. Verification for payments

Regulation 19.01

The Executive Director or his/her delegate shall:

(a) Designate the personnel who may verify that payments may be made on behalf of UNOPS; and

(b) Cause all payments to be made on the basis of supporting vouchers and other documents which ensure that the services or goods have been received in accordance with the contract, and that payments are properly due and have not previously been made.

Rule 119.01

(a) The Comptroller shall have authority to approve all payments under all UNOPS accounts;

(b) The Comptroller shall, where appropriate, designate certain personnel in other business units as verifying officers;

(c) Personnel so designated shall have the responsibility to verify that payments and other financial transactions are carried out on behalf of UNOPS. The responsibility assigned to a verifying officer cannot be delegated.

Rule 119.02

In cases of procurement under long-term agreements, or if so agreed with the client, the Comptroller may authorize delivery of goods prior to receipt of funds from the funding source.

Rule 119.03

(a) A verifying officer shall approve a voucher for payment when:
(i)It has been determined that said payment is due and had not previously been made;
(ii) It is supported by documents which indicate that the goods or services for which payment is claimed have been received or rendered in accordance with the terms of the contract and the related commitment;
(iii) The payment is made against a recorded commitment (unless such recording is not required as per the provisions of the internal control framework) entered into by an appropriate committing officer;
(iv) No other information is available which would bar said payment.

(b) Should an invoice be presented for payment in an amount that exceeds the existing relevant commitment specified by the Executive Chief Procurement Officer pursuant to Rule 105.01, prior commitment of additional funds by a committing officer shall be required;

(c) For payments for which funds do not need to be reserved by the recording of a commitment in accordance with Rule 105.01, the documentation supporting the relevant payment voucher must be signed by a committing officer before the payment may be approved by a verifying officer;

(d) The Comptroller may arrange for an electronic or digital verification process pursuant to Rule 105.04.

Regulation 19.02

UNOPS may make payments to third parties pursuant to the provisions of a project agreement.

Article 20. Ex-gratia payments

Regulation 20.01

The Executive Director may make such ex-gratia payments as he/she deems necessary in the best interests of UNOPS, provided that a statement of such payments is submitted to the General Assembly and the Executive Board with the financial statements for the biennium. The combined total of all ex-gratia payments made during the biennium shall not exceed 0.25 per cent of the biennial administrative budget approved by the Executive Board. All ex-gratia payments shall be disclosed in the financial statements in a separate schedule.

Rule 120.01

(a) Ex-gratia payments may be made in cases where, although in the opinion of the UNOPS general/legal counsel there is no legal liability on UNOPS, the moral obligation is such as to make payment desirable in the best interests of UNOPS;
(b) Requests for all ex-gratia payments shall require the approval of the Executive Director.

H. Management of resources administered by UNOPS

Article 21. Inventories, property, plant and equipment

Regulation 21.01

UNOPS may hold inventories, property, plant and equipment to be utilized or distributed for current or future requirements of the organization.

Regulation 21.02

The Executive Director is responsible and accountable for the management of all inventories, property, plant and equipment of UNOPS effectively and efficiently in furtherance of its policies and activities.

(a) The "management of inventories, property, plant and equipment" includes all actions necessary for proper receipt, custody, maintenance, transfer and disposal; and

(b) The Executive Director may delegate authority, as appropriate, for such activities.

Regulation 21.03

Property, plant and equipment acquired by UNOPS using project funds for and on behalf of a funding source shall be transferred to the concerned client upon

completion of the relevant project, unless otherwise agreed in writing with the concerned client.

Regulation 21.04

Property, plant and equipment may be acquired by UNOPS with funds from the administrative budget, and leased or otherwise made available to one or more projects on a cost recovery basis. Property, plant and equipment so acquired shall at all times remain the property of UNOPS.

Regulation 21.05

Property, plant and equipment financed or provided by UNOPS shall belong to UNOPS unless and until such time as ownership thereof is transferred, on terms and conditions mutually agreed upon between the client and UNOPS or in accordance with the project agreement.

Regulation 21.06

An item of property, plant and equipment that qualifies for recognition as an asset should initially be valued at its cost. Where an asset is acquired at no cost, or for a minimal cost, its 'cost' is its fair value as at the date of acquisition.

Regulation 21.07

The depreciable amount of property, plant and equipment should be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the economic benefits or service potential of the asset is consumed by UNOPS. The depreciation charge for each period should be recognized as an expense unless it is included in the carrying amount of another asset.

Regulation 21.08

An item of property, plant and equipment should be eliminated from the statement of financial position upon disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential is expected from its subsequent disposal.

Rule 121.01

(a) The head of operations at headquarters shall determine the types of property, plant and equipment for which records shall be maintained, and shall establish the nature and extent of those records in keeping with the purpose of these Financial Regulations and Rules;

(b) Records shall be maintained for each item of property, plant and equipment valued at the time of purchase at $2,500 or more and meeting the useful life criteria. Additionally, items of property, plant and equipment valued at between $1,000 and $2,499 shall be recorded, provided they meet all of the criteria established by the head of operations at headquarters.

(c) The head of operations at headquarters shall be responsible for the maintenance of the property, plant and equipment records established under (a) above. Such records shall be maintained both for headquarters and for regional offices, operations centres and other locations worldwide, and shall show separately property, plant and equipment belonging to UNOPS and/or entrusted to the charge of UNOPS;

(d) Physical inventories shall be taken of property, plant and equipment owned by UNOPS, or entrusted to the charge of UNOPS, annually or at such intervals as may be deemed necessary to ensure adequate control. The selection of items to be inventoried shall be the responsibility of the head of operations at headquarters, who shall also arrange to conduct physical inventories at headquarters, regional offices and other locations worldwide;

(e) The head of operations at headquarters may delegate the responsibilities assigned to him under (a), (c), and (d) above;

(f) The Comptroller shall establish policies and procedures governing the procedures on the capitalization and depreciation of property, plant and equipment.

Rule 121.02

The contracts and property committee(s) established pursuant to Rule 117.01 (c) shall render written advice to the Executive Chief Procurement Officer with respect to loss, damage or other discrepancies in relation to UNOPS property, plant and equipment. The Executive Chief Procurement Officer may delegate responsibility under the present Rule. The Executive Chief Procurement Officer shall ensure that the terms of reference of contracts and property committee(s) include procedures to determine the cause of any loss, damage or other discrepancy, the disposal action, and the degree of responsibility, if any, attaching to any personnel of UNOPS or other party, for any loss, damage or other discrepancy.

Rule 121.03

(a) The Executive Chief Procurement Officer shall be responsible for the disposal of property, plant and equipment by sale or any other means that may be appropriate. He/she shall establish policies and procedures for the sale of property, plant and equipment and may delegate authority to establish said policies and procedures and/or dispose of such property, plant and equipment as necessary, by sale or any other appropriate means;

(b) Property, plant and equipment declared surplus or unserviceable following a recommendation by contracts and property committee(s) shall be sold after competitive selection process, unless:

(i) The inventoried value per item is less than an amount to be specified by the Executive Chief Procurement Officer;

(ii) The exchange of surplus property, plant and equipment in partial or full payment for replacement property, plant and equipment will, in the opinion of the Executive Chief Procurement Officer, be in the best interests of UNOPS;

(iii) It is more economical to destroy the surplus or unserviceable material, or its destruction is required by law or by the nature of the property, plant and equipment; or

(iv) The best interests of UNOPS are served by disposal by gift or sale at nominal prices to a government, a government entity or some other not-for-profit organization.

Rule 121.04

All property, plant and equipment received by UNOPS shall immediately be inspected to ensure that the items comply with the specifications of the purchase contract and that their condition is satisfactory. As an item is received, an appropriate

report shall be issued and the item shall be entered, if required under Rule 121.01(a), into the property, plant and equipment records.

Rule 121.05

UNOPS property, plant and equipment shall be sold on the basis of payments on or before delivery. Exceptions to this rule may be authorized in writing by the Comptroller, when, in his/her view, it is in the best interests of UNOPS.

Article 22. Cash management

Regulation 22.01

The Executive Director, under the authority delegated by the Secretary-General as custodian of all UNOPS financial assets, is responsible and accountable for the effective and efficient management of cash and cash equivalents in UNOPS custody.

(a) "Management of cash" includes all actions necessary for the receipt, deposit, advance, investment and disbursement of cash, including the designation of banks and opening and closing of bank accounts; and

(b) The Executive Director may delegate authority, as appropriate, to personnel for such cash management.

Regulation 22.02

Within the UNOPS accounts, an operational reserve shall be established at a level set by the Executive Board. The purpose of the operational reserve is to guarantee the financial viability and integrity of UNOPS as a going concern. The operational reserve shall be fully funded and held in irrevocable and promptly available liquid assets. The elements to be compensated for and covered by it shall be limited to:

(a) Downward fluctuations or shortfalls in revenue;

(b) Uneven cash flows;

(c) Increases in actual costs above planning estimates or fluctuations in project expenditure; and

(d) Other contingencies which result in a loss of resources for which UNOPS has made commitments.

The decision to draw from the operational reserve shall rest solely with the Executive Director who will report all drawdowns to the Executive Board whenever, in the opinion of the Executive Director, the situation so merits.

Regulation 22.03

The Executive Director may establish such other reserves as may be approved by the Executive Board.

Rule 122.01

UNOPS may establish reserves to provide for compensation in respect of injury or illness to and death of personnel. Such reserves may be funded by contributions specified in project agreements.

Rule 122.02

Separate accounts shall be maintained for all reserves.

Rule 122.03

Receipt and deposit of funds

(a) All cash and cheques received shall be deposited in an official bank account no later than the business day following the day of receipt by the personnel authorized to issue an official receipt;

(b) An official receipt shall be issued on a timely basis for all funds received;

(c) Only personnel designated by the Comptroller shall be authorized to issue official receipts. If other personnel receive cash and cheques intended for UNOPS, they must immediately convey the cash or cheques to the personnel] authorized to issue an official receipt;

(d) Receipts shall be recorded in a timely manner.

Regulation 22.04

The Executive Director shall establish bank accounts to enable orderly receipt of funds and payments.

Rule 122.04

No bank account shall be opened without the approval of the Comptroller, who may also establish policies and procedures regulating the opening of bank accounts in emergency situations. The Comptroller shall designate the initial signatories to operate UNOPS bank accounts and the personnel authorized to amend the signatory panels.

Rule 122.05

All bank accounts shall be reconciled with statements issued by the relevant banks on a regular basis, and in any event no less frequently than monthly.

Rule 122.06

Where the custodianship of funds, including the opening and operation of bank accounts and the investment of said funds, is delegated to another United Nations system organization, the Financial Regulations and Rules of that organization may be accepted in lieu of these Financial Regulations and Rules in the interest of efficient and effective management of funds. Notwithstanding this, the identification of authorized signatories in relation to bank accounts opened and/or operated by such organization on behalf of UNOPS shall be made solely by the Comptroller.

Rule 122.07

Bank signatory authority is assigned on a personal basis and cannot be delegated. Authorized bank signatories must:

(a) Ensure that there are sufficient funds in the bank account when payment instructions, including cheques, are made against the account;

(b) Verify that all payment instructions, including cheques, are dated and drawn to the order of the named payee approved by an authorized officer pursuant to Regulation 1.02 ('verifying officers') as indicated in the accompanying disbursement voucher, payment instruction and invoice; and

(c) Ensure that cheques and other financial instruments are properly safeguarded and destroyed when obsolete.

Rule 122.08

Cheques or payment instruction letters to banks shall be signed by two authorized signatories. The Comptroller may, where adequate compensating controls are provided, authorize the signing of cheques by one signatory only.

Rule 122.09

The Comptroller may designate the bank(s) in which resources administered by UNOPS will be deposited and maintained. The designation of a bank shall cover all branches of that bank. The Comptroller may promulgate criteria for the qualification of such banks.

Rule 122.10

(a) The Comptroller shall make full and effective use of all currencies available to UNOPS to the extent possible, and in doing so may effect the purchase or sale of one currency for another whenever it is deemed to be in the best interests of UNOPS;

(b) The Comptroller may establish policies and procedures regulating the utilization of the commercial foreign exchange markets.

Rule 122.11

The Comptroller shall ensure that the United Nations operational rates of exchange are communicated to all business units in a timely manner, for their use in the recording of all UNOPS activities.

Rule 122.12

Regional offices, operations centres and other locations worldwide may receive remittances from headquarters. Such remittances may be limited, unless otherwise justified, to the monthly cash advance level established for each business unit by the Comptroller.

Rule 122.13

Advances from a bank account may be made to personnel designated by the Comptroller. The amount of any advance shall be the absolute minimum necessary for working requirements.

Rule 122.14

Personnel to whom advances from bank accounts are issued may make use of such advances only for the purpose for which the advances were authorized and shall be held personally responsible and financially liable for the proper management and safekeeping of cash so advanced. They shall submit monthly statements of expenditures unless otherwise required. They shall be in a position at all times to account for said advances. Cash or financial instruments shall be kept in safe custody. Any loss of cash or financial instruments must be reported at once to the Executive Director.

Rule 122.15

The provisions of Rules 122.13 and 122.14 shall apply mutatis mutandis to petty cash advances.

Rule 122.16

The Comptroller shall establish policies and procedures governing the safeguarding and management of cash.

Rule 122.17

Petty cash accounts may be made available to personnel designated by the Comptroller or his/her delegate. Such petty cash accounts shall be maintained on an imprest basis. The amount and purposes of each petty cash account may be defined by the Comptroller. The petty cash amount held by each UNOPS business unit shall not exceed $2,500, and no single payment from a petty cash account should exceed $1,000. Exceptions to this rule may be authorized in writing by the Comptroller, and the reasons for such decision may be recorded.

Rule 122.18

The Comptroller may make such cash advances as may be permitted by the United Nations Staff Regulations and Rules and policies and procedures issued by the Secretary-General, or on his behalf, or as may be appropriate in the best interests of UNOPS.

Rule 122.19

Unless cash disbursement is authorized by the Comptroller or his/her delegate, all disbursements shall be made by cheque or bank transfer and recorded in the accounts at the date they are made, including the date of issue for cheques, the date a transaction is effected for electronic transfer, and the date of payment for cash transactions. Exceptions to this rule may be authorized in writing by the Comptroller, and the reasons for such decision may be recorded.

Rule 122.20

Advance payments

(a) Except where normal, commercial practice or the best interests of UNOPS so require, no contract shall be made on behalf of UNOPS which requires payment(s) in advance of the delivery of products or the performance of contractual services. Whenever an advance payment is agreed in accordance with UNOPS policies and procedures, the reasons therefor may be justified in writing. Such authorization shall be subject to such requirements for guarantees as may be set by the Comptroller from time to time, and shall not exceed $500,000 or 20 per cent of the total purchase price under the relevant contract, whichever is the lesser. Additionally, advance payments in excess of $100,000 shall not be made without advance receipt of an irrevocable guarantee made in favour of UNOPS from a bank or other guarantor acceptable to UNOPS. Any exceptions to this rule may be authorized in writing by the Executive Chief Procurement Officer;

(b) Progress payments may be permitted pursuant to normal, commercial practice or in the best interests of UNOPS, in accordance with policies and procedures issued by the Comptroller;

(c) The Comptroller may establish such guarantee facilities as are necessary to facilitate the financial operations of UNOPS in the commercial marketplace. Such guarantees may take the form of bank-issued guarantees and/or bank-

issued commercial letters of credit, provided there is no borrowing of funds by UNOPS in connection with such issuance.

Rule 122.21

In addition to advances specified above, the Comptroller or his/her delegate may authorize other cash advances permitted by the United Nations Staff Regulations and Rules and UNOPS policies and procedures.

Regulation 22.05

The specific advance approval of the Executive Board shall be required for any borrowing of resources by the Executive Director of UNOPS.

Regulation 22.06

Taking into account the objectives and policies of UNOPS and the special requirements of its operations, cash not required immediately may be placed by the Comptroller in liquid financial instruments.

Rule 122.22

The Executive Director may establish an investment committee(s) and appoint its chair and membership, to provide oversight of liquidity management activities in accordance with the policies and procedures approved by the Executive Director.

Rule 122.23

The Comptroller shall establish a policy mitigating currency fluctuation risks. The policy may include the use of hedging, derivatives and any other risk mitigation instruments when the use of such instruments is deemed to be in the best interests of UNOPS.

Article 23. Accounting

Regulation 23.01

The Executive Director shall approve financial statements in respect of UNOPS accounts. Financial statements shall comply with accounting policies which shall prescribe accrual-based accounting. A complete set of financial statements shall contain the following components:

(a) Statement of financial position;

(b) Statement of financial performance;

(c) Statement of changes in net assets/equity;

(d) Cash flow statement; and

(e)Accounting policies and notes to the financial statements.

The Executive Director shall also provide such other information as may be appropriate to indicate the current financial position of UNOPS and shall maintain such accounting and other records as are necessary to report to the Executive Board and to the General Assembly on the financial status of UNOPS.

Regulation 23.02

UNOPS Executive Director shall establish accounting policies to ensure that the financial statements provide information that is:

(a) Relevant to the decision-making needs of users; and

(b) Reliable in that they:

(i) Represent faithfully the financial performance and financial position of UNOPS;

(ii) Reflect the economic substance of events and transactions, and not merely the legal form;

(iii) Are neutral, that is, free from bias;

(iv) Are prudent; and

(v) Are complete in all material respects.

Regulation 23.03

When preparing financial statements an assessment of UNOPS ability to continue as a going concern should be made by the relevant key management personnel of UNOPS.

Regulation 23.04

All items of revenue and expense recognized in a biennium should be included in the determination of the net surplus or deficit for the period. When items of revenue and expense within surplus or deficit from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explaining the performance of UNOPS for the biennium, the nature and amount of such items should be disclosed separately.

Regulation 23.05

Full accrual shall be made by UNOPS for the net present value of future personnel benefits, comprising post-employment, termination and, as the case may be, other long-term personnel benefits. In order to make, at the end of the reporting period, the best possible estimate of the net present value of future personnel benefits, the Comptroller may request an actuarial valuation from a qualified contractor.

Regulation 23.06

The financial statements shall be presented in the reporting currency. Accounting records, however, may be kept in such currency or currencies as the Executive Director may deem necessary.

Regulation 23.07

Separate records shall be maintained in UNOPS accounts for all reserves.

Regulation 23.08

Other operating revenue shall be credited to the relevant UNOPS account to which the revenue accrued, or from which it derived.

Regulation 23.09

The reporting period, for the purposes of both proposed utilization of resources and the incurring of and accounting for expenditures in respect of the biennial administrative budget, shall be a biennium.

Regulation 23.10

To provide for continuity in the implementation of projects, the reporting period, for the purpose of the proposed utilization of project funds and of entering into commitments in respect of project funds, shall be the duration of each project as specified in the project agreement.

Rule 123.01

The reporting period, for the purpose of incurring and accounting for expenditures in respect of projects, shall normally consist of a single financial year.

Rule 123.02

The Comptroller shall ensure that UNOPS accounts are provisionally closed on a regular basis, and at least quarterly.

Regulation 23.11

The Executive Director may, after full investigation by the designated personnel, authorize the writing-off of losses of cash, cash equivalents, or property, plant and equipment, provided that a statement of all amounts so written off is submitted with the financial statements for external audit. The Executive Director may establish from time to time an amount below which full investigation and formal write-off are not required. Such amounts shall, for administrative efficiency, be charged directly to the relevant account.

Regulation 23.12

The financial statements shall be submitted by the Executive Director to the external auditors for auditing and opinion not later than 30 April of the year following the end of each biennium.

Rule 123.03

The Comptroller shall prescribe and maintain financial and subsidiary records and shall institute systems and procedures which will permit accurate and timely financial reporting on all activities to the Executive Director and to the Executive Board.

Rule 123.04

The accounting and other financial records, and all supporting documents, shall be retained for such periods as may be agreed with the external auditors, after which, on the authority of the Comptroller, such records and documents may be destroyed.

Rule 123.05

Exchange adjustments arising from financial transactions shall be recorded separately as 'other operating revenue' or 'expenditure', as appropriate.

Rule 123.06

Gains or losses from investing activities shall be separately recorded as 'other operating revenue' or 'expenditure' in the relevant UNOPS account or the appropriate project account.

Rule 123.07

The proceeds from the sale of property, plant and equipment shall be credited as 'other operating revenue' to the source of funds originally charged with the purchase thereof, with the following exceptions:

(a) Where the contracts and property committee(s) has recommended the application of these proceeds directly against the purchase price of replacement

equipment or supplies, any excess shall be accounted for as 'other operating revenue';

(b) When the trade-in of property, plant and equipment is not considered to be a sale, the trade-in allowance shall be applied against the cost of the replacement property, plant and equipment;

(c) Where normal practice is to secure and use certain material or equipment in connection with a contract and to salvage and sell unused portions of such material or equipment at a later stage, the Comptroller may authorize the crediting of these proceeds to the UNOPS account from which they were procured, provided that the account has not been closed. If the project accounts have been closed, proceeds from the sale should either be returned to the funding source/client; or, in instances when that is not feasible, to the UNOPS 'other operating revenue' account; and

(d) Where equipment is transferred from one project for use in another and the accounts of the releasing project are open, the fair value of such equipment shall be credited to the accounts of the releasing project and charged to the accounts of the project receiving the equipment.

Rule 123.08

(a) Refunds of expenditures financed from a given biennial administrative budget shall be credited to the accounts originally charged, if received in the same reporting period, or, if received subsequent to that period, to other operating revenue;

(b) Refunds of project expenditures received during the life of a project, i.e., before the implementation of a project by UNOPS is completed, shall be credited to the project account originally charged. Refunds subsequently received shall be credited to other operating revenue.

Rule 123.09

(a) Unforeseen disbursements or refunds in respect of financially completed UNOPS project activities shall be charged or credited to the relevant UNOPS account under 'other operating revenue' or 'other operating expenses';

(b) Net adjustments on account of financially completed project activities undertaken on behalf of a client shall be settled by agreement with the funding source;

(c) Final determination as to the amounts of all recoveries to be made from personnel as the result of losses due to negligence or fraud shall be made by the UNOPS Executive Director or his/her delegate;

(d) The maximum amount authorized for write-off in respect of a single instance of loss of cash, cash equivalents or property, plant and equipment, without formal investigation and review by contracts and property committee(s), is $2,500;

(e) The Executive Chief Procurement Officer may delegate the authority to write off (pursuant to provisions of the Rule 123.09 (d)) and assign to personnel personal liability up to $2,500, in respect of each single instance of loss of cash, cash equivalents or property, plant and equipment;

(f) On an annual basis, the Comptroller shall determine the level of financial provisions and contingent assets and liabilities, which shall be reflected in the financial statements.

Rule 123.10

The establishment of a commitment is to be based on a contract or other form of undertaking by UNOPS or based on a liability recognized by UNOPS.

Rule 123.11

When a commitment is assumed in foreign currency, it shall be recorded in accounts in the reporting currency at a rate equivalent to the United Nations operational rate of exchange in effect on the day the commitment is assumed. If, during the period that the commitment remains outstanding, a currency fluctuation results in a change in the reporting currency equivalent from the original amount committed, the difference shall be charged or credited to the same account against which the commitment was recorded. In such cases an amendment to the original commitment is only required when the increase to the original commitment in the reporting currency equivalent exceeds 20 per cent, in which case approval from the Comptroller shall be obtained. Valid financial obligations as at 31 December of a given year shall be revalued to reflect the United Nations operational rate of exchange in effect on that date, and an amended financial obligation shall be issued should the revalued commitment exceed the original by the amount specified by the Comptroller.

Rule 123.12

The Executive Chief Procurement Officer may, after full investigation and recommendation by the contracts and property committee(s) (except in the circumstances described in Rule 123.09 (d) above), authorize the write-off of losses of UNOPS cash, cash equivalents or property, plant and equipment or such other adjustment of the records as will bring the balance shown by the records into conformity with the actual quantities, except that proposals for write-offs that exceed $100,000 shall be submitted to the Executive Director for approval.

Rule 123.13

(a) Unliquidated obligations retained against appropriations of the previous reporting period in accordance with Regulation 15.03 shall periodically be jointly reviewed by the committing or alternate committing officers. Unliquidated obligations which, after review, are no longer considered valid shall be cancelled, and the resulting credit surrendered to the original funding source. If, after twelve months of the ensuing biennium, an unliquidated obligation continues to be valid, it shall be re-obligated against appropriations of the then-current reporting period. Exceptions to this rule may be authorized in writing by the Comptroller;

(b) Reasonably frequent reviews of all unliquidated obligations shall be conducted in the interest of returning any resulting savings to UNOPS accounts.

Rule 123.14

The Comptroller or his/her delegate shall perform an age analysis of all advances, payables and receivables and shall follow up regularly on their status.

Rule 123.15

In addition to the financial statements, UNOPS shall provide the external auditors with information on:

(a) Ex gratia payments;

(b) Total value of property, plant and equipment for which records are kept;

(c) Losses of cash, and other assets written off; and

(d) Such other information as the external auditors may require.

Rule 123.16

(a) For purposes of accounting for and reporting on UNOPS assets, liabilities and transactions, and the maintenance of other financial records, foreign currencies will be translated into the reporting currency at the United Nations operational rate of exchange in effect on the date of the report or the date of the transaction, as may be appropriate;

(b) When the United Nations operational rate of exchange for a currency has been revised, any asset or liability held in that currency shall be revalued, for financial statement purposes, in terms of reporting currency and any gain or loss shall be debited or credited to other operating revenue.

Rule 123.17

The principal accounts shall consist of:

(a) Project accounts by funding source, showing:

(i) Project number;

(ii) Project allocations;

(iii) Disbursements;

(iv) Unliquidated obligations; and

(v) Balances of allocations in respect of which no commitment was recorded.

(b) Biennial administrative budget accounts, showing:

(i) Original appropriations;

(ii) Appropriations after modification by any transfers;

(iii) Credits, if any, other than appropriations;

(iv) Allotments made;

(v) Disbursements;

(vi) Unliquidated obligations;

(vii) Balances of allotments in respect of which no commitment was recorded; and

(viii) Balances of appropriations in respect of which no commitment was recorded;

(c) UNOPS accounts showing revenue, expenditure, cash at banks, investments, receivables, and other assets; reserves, payables, and other liabilities; and

(d) Other accounts similarly structured as those described under (a) and (b), above, as may be appropriate for any funds administered by UNOPS.

Rule 123.18

Separate accounting records shall be maintained to document all financial transactions relating to project agreements. The balances of such records shall be reported in the UNOPS financial statements under accounts payable. Any interest earned on such project funds shall be credited to the UNOPS 'other operating revenue' account, unless otherwise agreed in the respective project agreement. Any negative interest charges incurred by UNOPS pursuant to client/funding source request to UNOPS to advance its own funds for project activities or due to late instalment payments by the client/funding source, shall be deducted from interest amounts that may be owed to the client/funding source. The amount included in the project agreement for reimbursement of UNOPS' direct, indirect and allocable costs shall be charged to the related project budget.

Rule 123.19

The Comptroller shall certify that to the best of his/her knowledge, information, and belief, all material transactions have been properly charged in the accounting record and are properly reflected in the financial statements and supporting schedules.

Regulation 23.13

The Executive Director shall maintain the accounting records and safeguard against their damage, destruction, unauthorized access and removal, in accordance with the UNOPS records retention policy.

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Recommendations of the Board of Auditors

UNDP: Report on the implementation of the recommendations of the Board of Auditors, 2006-2007*

Report of the Administrator

Summary

The United Nations Board of Auditors, in its audit report A/63/5/Add.1, awarded UNDP an 'unqualified' audit opinion for the biennium ended 31 December 2007. This reaffirms the strategic thrust of UNDP efforts in addressing the three matters of emphasis and other audit concerns raised in the previous biennium. Pursuant to Executive Board decision 2007/10, the present report provides an implementation status update of the 82 audit recommendations made by the Board of Auditors for the biennium ended 31 December 2007. The present paper also reviews progress made (since the last update to the Board in January 2008) in addressing the Top 15 audit priorities in UNDP in 2006-2007 identified in its paper DP/2007/14 to the Board and outlines management plans in addressing the key audit priorities for the biennium 2008-2009, taking into account key the Board of Auditors Audit Report (A/63/5/Add.1), audit findings from the 2007 report of the Office of Audit and Investigations to the Executive Board (DP/2008/20), the Report of the Advisory Committee on Administrative and Budgetary Questions (A/63/474) to the General Assembly on the Concise Summary Report of the Board of Auditors (A/63/169), the guidance provided by the UNDP Audit Advisory Committee and the decisions of the Executive Board (DP/2008/13).

Elements of a decision

The Executive Board may wish to note (a) that the Board of Auditors issued an 'unqualified' audit opinion for UNDP with respect to the biennium ended 31 December 2007 and (b) recognize the progress made by UNDP in addressing the Top 15 audit priorities in 2006-2007. The Board may wish to express its support of specific management efforts in addressing key audit priorities in UNDP in 2008-2009.

* The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

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Introduction

1. For the biennium ended 31 December 2007, the United Nations Board of Auditors issued an 'unqualified' audit opinion on the UNDP financial statements (A/63/5/Add 1). UNDP was one of seven United Nations organizations (out of the 16 audited) to receive the 'unqualified' opinion. The significance of this lies in the fact that in the 2004-2005 biennium the Board of Auditors had issued a 'modified' audit opinion, where, among other concerns, there were three matters of emphasis, namely: audit management of nationally executed projects; bank reconciliations; and internal controls in the Atlas system. The recent positive result reaffirms the strategic thrust of many of the management initiatives implemented over past several years aimed at addressing the key audit findings of the Board of Auditors, as well as systemic issues underlying those findings.

2. The present report covers progress made (since the last update to the Executive Board at its first regular session 2008) in addressing the top 15 audit priorities in UNDP in 2006-2007. The audit was completed in May 2008, and by the date of this paper five audit recommendations had been implemented fully and another 70 partially implemented (implementation in progress). Together, those numbers represent 91 per cent of the recommendations.

3. On the basis of progress made, and recognizing remaining challenges, the present report outlines management plans to address key audit priorities for the 2008-2009 biennium, taking into account the report of the Board of Auditors (A/63/5/Add.1); the report of the Advisory Committee on Administrative and Budgetary Questions (A/63/474) to the General Assembly on the concise summary report of the Board of Auditors (A/63/169); key audit findings from the 2007 report of the Office of Audit and Investigations (DP/2008/20); and the guidance provided by the UNDP Audit Advisory Committee and the decisions of the Executive Board (DP/2008/13).

I. Major observations and key recommendations of the United Nations Board of Auditors for the biennium ended 31 December 2007

4. While the core business areas (financial, procurement, human resources and programmatic management) audited in the 2006-2007 biennium remain fairly consistent with those of previous biennia, the audit report for the biennium (A/63/5/Add.1) signalled important shifts in the expectations of the Board of Auditors and its added focus on specific areas in UNDP. Specifically, UNDP noted the following:

(a) *Higher expectations in country office and headquarters bank reconciliations, and the management of advances to nationally executed projects.* The bar has been raised by the Board of Auditors. While recognizing "improvements in the management of bank reconciliations and the enterprise resource planning system, as well as UNDP management efforts to address concerns over nationally executed expenditure", as noted in Chapter 2 of its report, the Board of Auditors has challenged UNDP to achieve even higher standards for the new biennium in several keys areas. For example, in paragraph 357, the Board of Auditors recommends that UNDP closely monitor advances to nationally

executed projects provided to government and non-government organizations that have been outstanding for more than six months (instead of those greater than 12 months). As monthly bank reconciliation becomes a regular practice in many UNDP country offices, paragraph 214 recommends attention to unrecorded payments and unrecorded deposits in the external tables in bank reconciliation processes. Further, instead of using estimates for the computation of leave accrual liabilities, paragraph 173 recommends that UNDP should further leverage the Atlas system to compute accrued annual leave and repatriation grants liabilities for the financial statements. In response, UNDP has enhanced its Atlas 'financial dashboard' to track the status of external bank reconciliations and is the process of enhancing its Atlas aging report to better track advances to nationally executed projects outstanding for more than six months.

(b) *National capacity-building and inter-organization coordination.* In paragraph 430, the Board of Auditors indicates that it will focus on reviewing the implementation of the harmonized approach to cash transfers in country offices. This is one of the key components of national capacity building that will enable UNDP to work with programme governments to choose the most appropriate support modality to mitigate fiduciary risks and build sustainable capacity. This is also in line with General Assembly resolution 62/208, which calls upon United Nations organizations to adopt measures that ensure sustainability in capacity-building and to use national execution expertise as the norm in implementing projects. In response, UNDP will focus on supporting country offices facing difficulties in the implementation of the harmonized approach to cash transfers in their countries. So far, 13 countries are fully compliant with the harmonized approach, and many others are partially compliant. UNDP and UNFPA have advocated for and supported the adoption of the harmonized approach by the specialized agencies, funds and programmes, including its implementation in the 'delivering as one' pilot countries In addition, UNDP is working with Executive Committee partners and the United Nations Secretariat to revise the Financial Regulations and Rules so as to facilitate participation in direct budget support and other pooled-funding arrangements at the country level. The changes approved by the Executive Board during its second regular session 2008 have enabled UNDP to engage in direct budget support, thus responding to the call to support the development of national capacity for various modalities of development financing. Within established limits, and based on agreement with partners, UNDP is now able to pool funds in core mandate areas when this modality is in use.

(c) *Organizational risks and challenges associated with the planned implementation of the international public sector accounting standards.* At a more systemic level, the Board of Auditors has reiterated several key United Nations system-wide issues that need to be addressed in anticipation of the adoption of the international public sector accounting standards. Key emphases, reiterated in its concise summary report to the General Assembly (A/63/169), include (i) funding and recording of after-service health insurance liabilities on the face of the financial statements; (ii) the need to improve the quality and accuracy of non-expendable assets and to formalize project asset management policy in a manner consistent with the international public sector accounting standards; and (iii) the need to prepare the organization for the transition to the standards.

5. Besides working closely with the United Nations Secretariat and other United Nations organizations to harmonize accounting policies, financial regulations and rules, UNDP has developed a comprehensive change management and communication plan, targeting different stakeholders, senior management and staff, on the expected effect that adoption of the international public sector accounting standards will have on business processes and the changes to the financial statements that it will bring about. An organizational impact analysis of all UNDP country offices is under way to fine-tune the change management strategy of the organization as it professionalizes key functions and ensures specialization around the new business processes to be introduced under the international public sector accounting standards. UNDP will continue with its financial training certification programme to strengthen capacity in UNDP offices. UNDP will roll out regional accounting service teams, providing a number of small UNDP country offices with access to pooled expert resources in financial management in accordance with the standards.

6. With respect to after-service health insurance, UNDP agrees with the Board of Auditors that the full liability should be recorded on the face of the financial statements. UNDP will do this, effective 2010, as part of the implementation of international public sector accounting standards. In connection with non-expendable assets, UNDP has formalized its asset management guidelines while updating its internal control framework, and is conducting a half-yearly asset verification exercise in preparation for the interim audit of the 2008-2009 biennium. The exercise has yielded encouraging results, with a more than 96 per cent certification rate for the year 2008. This is expected to ensure better-quality asset data and reduce last-minute asset corrections at the end of the year.

II. Current implementation status and plans to fully implement audit recommendations for the biennium ended 31 December 2007

7. As at 31 October 2008, five audit recommendations were fully implemented and another 70 recommendations partially implemented (implementation in progress). Together, those numbers represent 91 per cent of the recommendations. UNDP is targeting full implementation of at least 80 per cent of the 82 recommendations by the fourth quarter of 2009 and the remaining recommendations by the second quarter of 2010, in time for the closing of accounts for the 2008-2009 biennium (see table below).

Implementation status by priority and target completion date

Priority	Fully Implemented (a)	Partially implemented (b)	Not implemented (c)	Total (a) to (c)
High	5	32	1	38
Medium	0	38	6	44
Low	0	0	0	0
Total	5	70	7	82
Percentage of total	6%	85%	9%	100%
	91%		9%	10%

8. The implementation schedule for several audit recommendations took into consideration the implementation plan of the recently approved UNDP human resources strategy and the UNDP information management strategy for 2008-2011. The UNDP procurement strategy is being finalized. It will cover such issues as the implementation of succession planning; mandatory procurement planning; and mandatory professional certification for key procurement staff. Audit recommendations that relate to the interim closing of the 2008 financial accounts are expected to be fully implemented by the second quarter of 2009 with the stabilization of the newly upgraded Atlas system in early 2009. This will include such matters as inter-organization accounts reconciliations; balance sheet accounts reconciliations and clean up, and asset verifications.

9. Due to several parallel activities during the period, a substantial number of recommendations are not expected to be fully implemented until the fourth quarter of 2009. These include (a) preparatory work on adoption of the international public sector accounting standards by UNDP in 2010, such as the formalization of project asset policy; a reassessment of field accommodation reserves; and mitigation of the risk associated with the transition to the standards; (b) the monitoring of inactive trust funds, the implementation of the common service programme, and support to country offices in the implementation of the harmonized approach to cash transfer modality; and (c) year-end events such as the reviews of outstanding advances to nationally executed projects and operationally closed projects.

10. A number of recommendations are expected to be fully implemented by the second quarter of 2010 to coincide with the finalization of the UNDP financial statements for the 2008-2009 biennium. These include the recording of after-service health insurance liabilities, the calculation of leave accrual liabilities, and a reassessment of field accommodation reserves.

11. As in the previous biennium, UNDP has started, since the issuance of the final Board of Auditors audit report (A/63/5/Add. 1), to set target completion dates for the 82 recommendations it contained (including 38 high- and 44 medium-priority recommendations). In the spirit of accountability, the division and the manager responsible for full implementation are provided on the 'audit tracking dashboard'. This is in line with General Assembly resolution 62/223 for greater accountability with respect to the implementation of audit recommendations. In 2006-2007, UNDP has established a system of periodic management review of the top 15 audit priorities (described in DP/2007/14) at Operations Group meetings, chaired by the Associate Administrator, and at quarterly reviews with the regional bureaux.

12. In line with the recommendation of the Advisory Committee on Administrative and Budgetary Questions (A/63/474), UNDP is consulting with the Board of Auditors to establish procedures for validating the implementation of audit recommendations and specific completion standards to verify that recommendations have been implemented fully. This is particularly important for recommendations that are of an ongoing nature, where full implementation would be dependent on parties outside UNDP, or where full implementation is expected to spread over multiple time periods.

III. Progress made in addressing the top 15 audit priorities and action plan to address key and remaining risks

13. Pursuant to Executive Board decisions 2007/29 and 2007/10, UNDP took specific measures, during the 2006-2007 biennium, to address the top 15 audit priorities in UNDP, including the three matters of emphasis highlighted by the Board of Auditors.

14. Key actions taken by UNDP include a strong, visible commitment from the Administrator, the Associate Administrator and the directors of the regional and headquarters bureaux to address audit and analyse systemic issues associated with those recommendations. UNDP has also leveraged the half-yearly report of the Office of Audit and Investigation (OAI) to the Operations Group to proactively address audit risks identified through country office and headquarters audits. In addition, UNDP has institutionalized regular management review of strategic initiatives and progress made in addressing the top 15 audit priorities at the Operations Group meeting chaired by the Associate Administrator.

15. UNDP has also invested in longer-term solutions, such as staff professional certification programmes in the five core business areas of UNDP, and has piloted the implementation of regional shared services accounting teams as a way to build sustainable capacity over the long term for offices where staff capacity is limited (whether temporarily or permanently). In formalizing its top 15 audit priorities, UNDP has been able to operationalize its audit accountability and responsibility matrix through the quarterly review of financial and audit matters with the regional bureaux and use of the Atlas 'financial dashboard' to take targeted action on audit issues at the earliest possible moment.

A. Significant progress made in the 2006-2007 biennium

16. *Improved management of fiduciary risks associated with nationally executed projects and audit results.* The total net impact of financial audit qualifications of nationally executed projects in 2007 was significantly reduced from $24.1 million in 2005 (1.5 per cent of total expenditure on nationally executed projects) to $5.15 million in 2007 (0.3 per cent of total expenditure). An 'aging report' has been implemented to better track the aging of advances forwarded to governments and non-governmental organizations for nationally executed projects. This has enabled UNDP to reduce its long-outstanding (more than 12 months) advances to nationally executed projects, from a net of $29.3 million in 2005 to $15 million in 2007. With the implementation of the risk-based approach to planning for audits of nationally executed projects, started in 2007, the percentage of audit reports on nationally executed projects received by the time of the audit improved from 74 per cent in 2005 to 96 per cent in 2007. The number of nationally executed projects with 'adverse' or 'disclaimer' audit opinions in 2007 dropped to 19 projects (out of a total of 1,004 projects), compared to 37 'adverse' or 'disclaimer' audit opinions in 2005, with reduced net financial impacts associated with these audit opinions.

17. *All headquarters and country office bank accounts are reconciled, a task which is now performed regularly.* All 67 bank accounts at headquarters and 553 in country offices were reconciled in time for the 2006-2007 biennium, compared with 258 outstanding bank reconciliations involving 49 country offices for the audit covering the 2004-2005 biennium. The special task force team mission has been useful in providing targeted support to country offices that faced difficulties with bank reconciliations. In addition, for a handful of offices with limited staff capacity, the bank

reconciliations were temporarily performed centrally, at the Office of Finance and Administration of the Bureau of Management.

18. *Key risks have been mitigated with enhanced internal controls in Atlas and exception transaction monitoring in place.* UNDP enhanced the internal controls in the Atlas system with the roll-out of audit trail capabilities in 2006, permitting the tracking of changes to vendor records, bank accounts and foreign exchange documents. UNDP also implemented a security question feature for forgotten password requests to prevent unauthorized access to Atlas, and implemented an industry-tested oversight system to track potentially questionable transactions in Atlas and infringement of internal control framework guidelines.

19. *A truly global financial and human resources management system covers all UNDP offices, including UNDP Brazil.* With the migration of UNDP Brazil human and financial resources management to Atlas in early 2008, UNDP achieved a truly global enterprise resource planning system. Since the migration of human resources and payroll management for international professional staff from the 'legacy' Integrated Management Information System to the Atlas system in 2008, UNDP now has a truly global workforce system that will enable it to deliver on its human resources strategy for talent management and succession planning.

B. Action plans to address key and remaining audit risks in the 2008-2009 biennium

20. The review that was undertaken in consultation with OAI indicated that improvements were noted in eight of the 15 priority areas. This means that the initiatives started are having their desired effect, though it does not necessarily mean that the matter has been completely resolved. There is a need for continuing attention and focus on the areas identified below, which are either potentially key risks or contain residual risks that need to be addressed in the 2008-2009 biennium (see annex).

Management of audits of nationally executed projects

21. Notwithstanding progress made, the management of audits of nationally executed projects remains a top audit priority in UNDP. UNDP will ensure the timely submission of these audit reports and audit follow-up plans, and to strengthen controls of advances to nationally executed projects outstanding for more than six months, as recommended by the Board of Auditors. In addition, through the Development Operations and Coordination Office and working collaboratively with the regional bureaux, UNDP will assist country offices having difficulty implementing the harmonized approach to cash transfers.

22. While national capacity building will remain the central objective of our programmatic interventions, alternative payment modalities could be pursued with programme governments (such as direct payments), as required to mitigate fiduciary risks while building national capacity in financial management. UNDP is in the process of enhancing its Atlas reporting capability to enable better aging analysis of advances older than six months to nationally executed projects. Except with special approval from the Associate Administrator through the regional directors, no new advances to nationally executed projects would be disbursed until those outstanding for more than 12 months have been resolved. UNDP has made the management of audits of nationally executed projects a performance indicator on the UNDP 'executive scorecard' for country offices.

Project quality assurance

23. In line with our programmatic accountability to the Executive Board and to programme governments to build the required capacity and contribute to national development priorities, UNDP will step up efforts in project monitoring, improving mechanisms for project design, and ensuring regular project appraisal.. Project risk management is an integral part of the larger enterprise risk management strategy for UNDP to deliver on commitments made in its strategic plan, 2008-2011.This is also in line with the guidance provided by the UNDP Audit Advisory Committee.

24. UNDP will leverage its recently enhanced results-based management system to provide a more effective process for the planning, monitoring and reporting of key results areas across UNDP offices. Specific attention will be given to identifying SMART indicators and in the prompt financial closure of operationally closed projects in line with the recommendations of the Board of Auditors.

Procurement management at country offices

25. In response to concerns raised by OAI and the Board of Auditors, UNDP will (as part of its procurement strategy) be taking special efforts to strengthen procurement capacity and competency of the contracts and assets procurement committees in country offices. While the UNDP procurement certification programme is recognized within the United Nations as a 'best practice' and an avenue to building competency and professionalism, UNDP is working towards ensuring that every UNDP office has at least one procurement-certified buyer.

26. As part of its procurement strategy, UNDP is establishing procurement planning processes in country offices and at headquarters. UNDP will also link delegation of procurement authority to mandatory procurement planning, demonstrated capacity and performance. UNDP expects to roll out an on-line e-tool in 2009 to help business units link planned procurement to risk and value considerations. With targeted training at regional procurement workshops and the eventual placement of all five regional chief procurement officers, UNDP expects to improve the quality of procurement submission to the Advisory Committee on Procurement regionally and at headquarters, and to implement periodic review and analysis of the different types of waivers requested and approved by the Committee.

Atlas user access management and internal control

27. To mitigate risks and strengthen internal controls in the Atlas system, UNDP has formalized its usage and security policies for information and communications technology in its programme and operations policies and procedures. Atlas user access and user accounts are being streamlined to better manage inactive Atlas user accounts. User access profiles will be streamlined in accordance with the revised guidelines for the internal control framework to incorporate controls for other key business processes in Atlas.

28. The chief information security officer at UNDP is working with the Office of Finance and Administration and Office of Human Resources to conduct regular reviews of Atlas security systems. UNDP will continue to improve its industry-proven oversight system by expanding its monitoring and reporting capabilities with respect to irregular and inconsistent transactions and potential frauds in other business processes.

29. *External tables in monthly bank reconciliations*. While monthly bank reconciliation is becoming regular practice in country offices, the UNDP Audit Advisory Committee and the Board of Auditors have recommended additional attention to unrecorded payments and unrecorded deposits in the external tables in

bank reconciliation processes. These are primarily payments made outside the Atlas system, which could be a source of fraud or abuse. UNDP has started to track these external items in the Atlas 'financial dashboard', which will be reviewed with the regional bureaux at quarterly meetings.

30. *Asset management*. UNDP has formalized its asset management guidelines as part of its update of the internal control framework, and will conduct its half-yearly asset verification exercise in preparation for the interim audit of the biennium 2008-2009. This has yielded encouraging results, with a better than 96 per cent certification rate. This is expected to ensure higher-quality asset data and to reduce last-minute asset corrections at the end of the year. As the Board of Auditors, recommended, UNDP will dispose unserviceable assets and formalize its policy for the proper recording and management of project assets in accordance with the requirements of the requirements of the international public sector accounting standards.

Management of trust funds

31. In line with the directives of the UNDP Audit Advisory Committee and the Board of Auditors, specific attention will be given to the management of trust funds in 2008-2009. At the end of the 2006-2007 biennium, 93 of the 647 UNDP trust funds (or 14 per cent) showed deficits totalling $14.8 million. Deficits in trust funds funded by the European Commission continue to be a concern. While such deficits may be due to foreign exchange losses as a result of factors such as pre-financing activities from UNDP dollar reserves and limitations in fully hedge payments, further attention may be required.

32. UNDP will focus closely on enhancing the management and oversight of multi-donor trust funds. Revisions to standard legal agreements (the memorandum of understanding and the standard administrative arrangement) were drafted to be used for establishing multi-donor trust funds and joint programmes using the pass-through fund management option.

33. *Integrity of staff recruitment processes* UNDP is formalizing its recruitment regulatory framework to clarify the responsibility and accountability of hiring managers and to reinforce prescribed recruitment policies and guidelines. This is a part of the recently-approved UNDP human resources strategy. UNDP will continue to use its on-line job vacancy tracking tool for oversight monitoring, and will build on field work undertaken by the Office of Audit and Investigations to address instances of non-compliance, lack of underlying capacity, or other issues highlighted by the audits.

IV. Conclusion

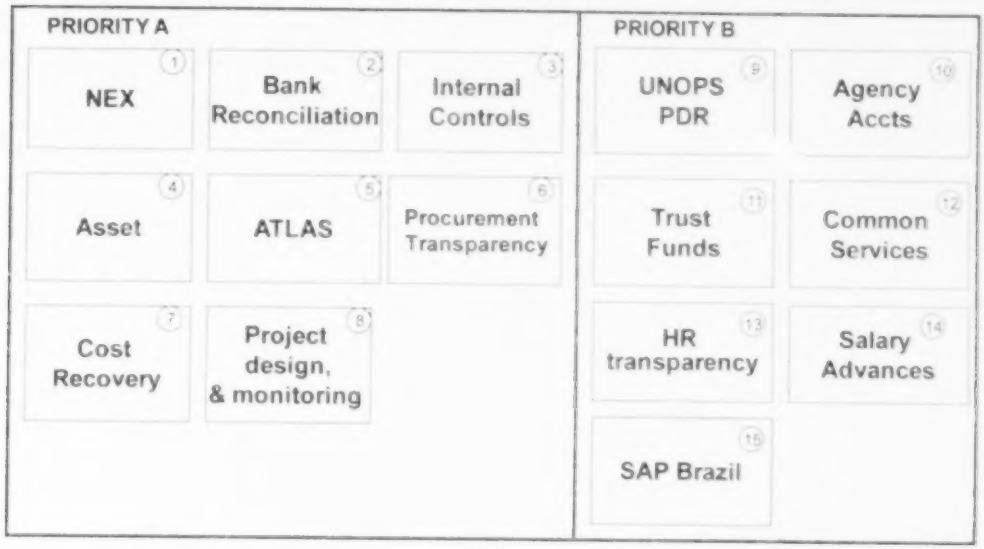
34. UNDP is committed to strengthening accountability and organizational responsiveness to audit recommendations within its overall accountability system. UNDP is revising its top 15 audit priorities to better reflect remaining risk and new or emerging risks highlighted by the Board of Auditors. They will also reflect the guidance provided by the UNDP Audit Advisory Committee in managing the change associated with the implementation of the International Public Sector Accounting Standards and that of the Executive Board, especially with audit recommendations that remain unresolved for longer than 18 months.

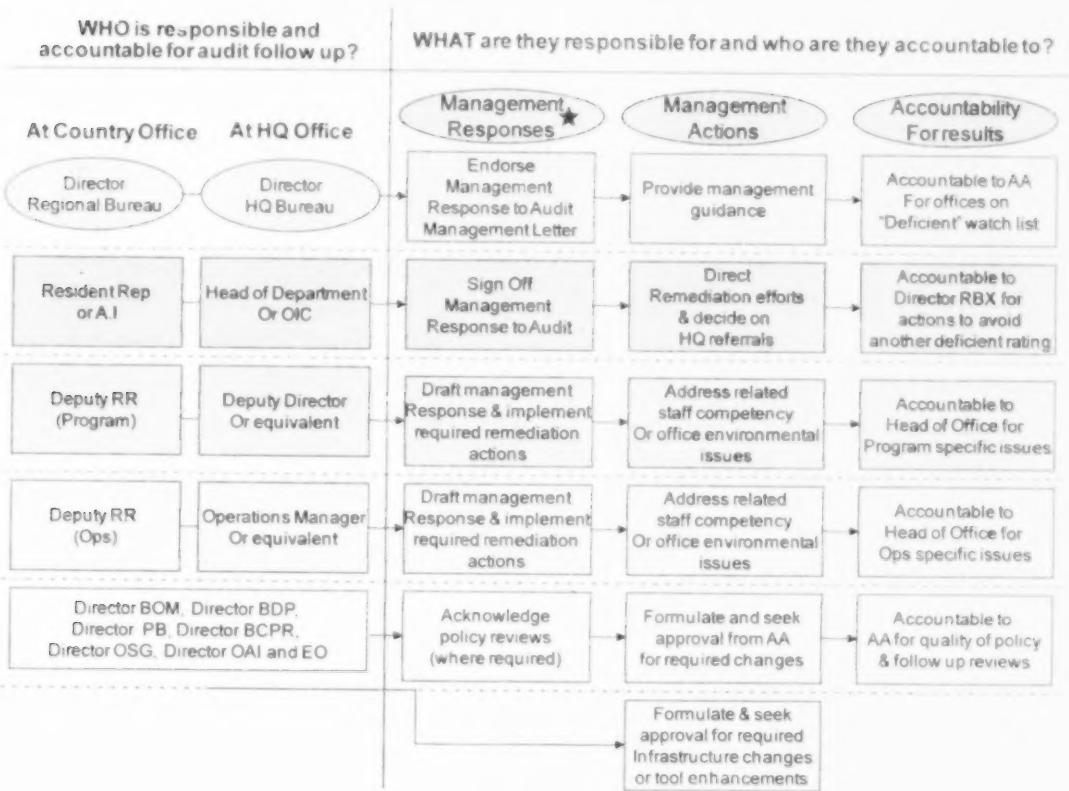
35. UNDP has made significant progress in addressing its top 15 audit priorities of 2006-2007. This reflects the significant investment made in implementing specific management strategies over the last 3-4 years, and has meant that UNDP is

maturing in its approach to audit management. This being so, it is envisaged that UNDP will now move towards having a 'top 10' audit priorities for 2008-2009.

36. UNDP will invest further in capacity-building and professionalization programmes for its staff, and will develop alternative, more sustainable measures, such as the regional shared services teams to support bank reconciliations and other core business areas. While the award of an 'unqualified' audit opinion by the United Nations Board of Auditors for the biennium 2006-2007 affirms the strategic thrust of management interventions, UNDP intends to build on the progress made and prepare its stakeholders, management and staff for implementation of the international public sector accounting standards by 2010.

Annex. Top 15 audit priorities in 2006-2007, and audit accountability framework




WHO is responsible and accountable for audit follow up?
WHAT are they responsible for and who are they accountable to?
At Country Office
At HQ Office
Management Responses
Management Actions
Accountability For results
Director Regional Bureau
Director HQ Bureau
Endorse Management Response to Audit Management Letter
Provide management guidance
Accountable to AA For offices on "Deficient" watch list
Resident Rep or A.I
Head of Department Or OIC
Sign Off Management Response to Audit
Direct Remediation efforts & decide on HQ referrals
Accountable to Director RBX for actions to avoid another deficient rating
Deputy RR (Program)
Deputy Director Or equivalent
Draft management Response & implement required remediation actions
Address related staff competency Or office environmental issues
Accountable to Head of Office for Program specific issues
Deputy RR (Ops)
Operations Manager Or equivalent
Draft management Response & implement required remediation actions
Address related staff competency Or office environmental issues
Accountable to Head of Office for Ops specific issues
Director BOM, Director BDP, Director PB, Director BCPR, Director OSG, Director OAI and EO
Acknowledge policy reviews (where required)
Formulate and seek approval from AA for required changes
Accountable to AA for quality of policy & follow up reviews
Formulate & seek approval for required Infrastructure changes or tool enhancements